CANADIAN PACIFIC 2000 ANNUAL REPORT

Building Scale and Profitability across our Companies

CANADIAN PACIFIC
Energy Transportation Hotels

Transportation

Canadian Pacific Railway

Canadian Pacific Railway provides rail and intermodal freight transportation services over a 14,000-mile network extending from Montreal to Vancouver, and throughout the U.S. Midwest and Northeast. Commercial alliances with other carriers extend Canadian Pacific Railway's market reach beyond its own network. Serving ports on the east coasts of Canada and the U.S. and the Port of Vancouver, Canadian Pacific Railway links North America with European and Pacific Rim markets, moving large volumes of import and export goods across the continent. It is also a leading carrier in the intermodal industry with 23 terminals across Canada and the northern U.S.

CP Ships

CP Ships is a leading provider of international ocean and inland transportation for containerized cargo. Its six shipping lines offer a worldwide network of regional services under their readily recognized brand names, Canada Maritime, Cast, Contship Containerlines, ANZDL, Lykes Lines and TMM Lines. Their combined fleet of 80 ships transports nearly two million containers per year, which places CP Ships among the top 10 container shipping businesses worldwide.

Energy

PanCanadian Petroleum

PanCanadian is a leading North American energy company active in the exploration, development, production and marketing of natural gas, crude oil and natural gas liquids. Its core areas include: the Western Basin, encompassing its lands in Western Canada and onshore in the United States; the East Coast of Canada; the Gulf of Mexico; and the U.K. These areas are complemented with focused international interests.

Fording

Fording is Canada's largest and lowest-cost producer of export coal. Its three mines in southeastern British Columbia produce primarily high-quality metallurgical coal for the international steel industry. Its operations in Alberta include two mines supplying thermal coal to electric utilities, and an oil sand overburden removal operation. Fording is also the world's largest producer of the industrial mineral wollastonite.

Hotels

Canadian Pacific Hotels & Resorts

Canadian Pacific Hotels & Resorts Inc. is Canada's largest hotel management company operating 71 properties with over 30,000 rooms in Canada, the United States, Mexico, Bermuda, and Barbados. It holds a 67 percent controlling interest in Fairmont Hotels & Resorts, North America's largest luxury hotel management company. Fairmont Hotels manages 36 distinct city centre and resort hotels such as The Fairmont San Francisco, The Fairmont Banff Springs, Fairmont Le Château Frontenac, The Fairmont Scottsdale Princess and The Plaza in New York City. It also holds a 100 percent interest in Delta Hotels Limited, which manages and franchises a portfolio of 35 first-class urban and resort properties, primarily in Canada. In addition to hotel management, Canadian Pacific Hotels & Resorts holds real estate interests in 20 properties and a 34 percent investment interest in the Legacy Hotels Real Estate Investment Trust, which owns 19 hotels.

	2000	1999	1998
Revenues *(millions)*	$ 3,655.1	$ 3,496.4	$ 3,516.5
Operating income *(millions)*	$ 845.2	$ 261.7	$ 736.0
Net income *(millions)*	$ 532.3	$ 61.9	$ 367.4
Cash flow *(millions)*	$ 975.6	$ 861.5	$ 761.2
Revenue-ton-miles *(billions)*	110.4	100.4	96.1
Trackage *(miles)*	13,959	14,358	14,456
Locomotives	1,565	1,587	1,641
Freight cars	45,400	47,900	51,900
Employees	17,519	18,150	19,323

	2000	1999	1998
Revenues *(millions)*	$ 3,919.0	$ 2,798.9	$ 2,646.7
Operating income *(millions)*	$ 252.3	$ 129.1	$ 177.9
Net income *(millions)*	$ 206.5	$ 85.2	$ 151.3
Cash flow *(millions)*	$ 320.1	$ 177.9	$ 217.6
Container carryings*	1,833	1,373	1,160
Employees	3,624	3,014	3,244

* thousand twenty-foot equivalent container units

	2000	1999	1998
Revenues *(millions)*	$ 7,215.9	$ 3,873.0	$ 2,965.6
Operating income *(millions)*	$ 1,777.5	$ 568.3	$ 251.8
Net income *(millions)*	$ 879.6	$ 287.2	$ 116.6
Cash flow *(millions)*	$ 2,473.1	$ 1,110.0	$ 803.0
Wells drilled*	2,530	1,638	1,081
Total reserves – conventional oil and natural gas liquids†	664	635	547
Total reserves – natural gas†	809	616	602
Employees	2,055	1,757	1,785

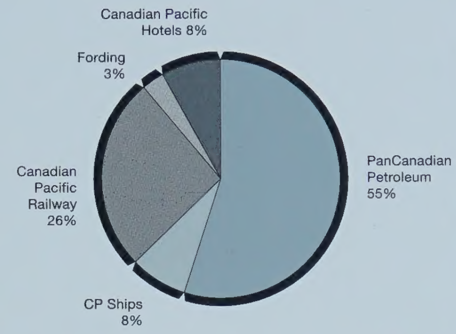
* working interest
† million barrels of oil equivalent – proved plus probable, before royalty (natural gas converted at a rate of 6,000 cubic feet to one barrel of oil)

	2000	1999	1998
Revenues *(millions)*	$ 896.1	$ 855.6	$ 906.1
Operating income *(millions)*	$ 83.2	$ 63.5	$ 129.3
Net income *(millions)*	$ 33.4	$ 26.9	$ 65.9
Cash flow *(millions)*	$ 120.8	$ 105.7	$ 142.8
Cleaned coal sales *(thousand tonnes)*	15,058	14,244	12,359
Total coal reserves*			
Metallurgical	376	382	N/A†
Thermal	810	824	N/A†
Employees	1,909	1,924	1,955

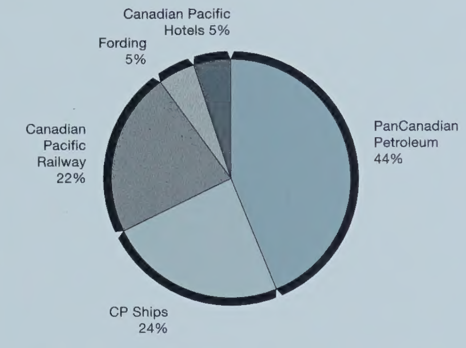
* million metric tons of measured and indicated coal reserves
† due to changes in reporting requirements, reserves for 1998 are not available

	2000	1999	1998
Revenues *(millions)*	$ 833.2	$ 749.2	$ 518.5
Operating income *(millions)*	$ 264.5	$ 223.0	$ 149.6
Net income *(millions)*	$ 152.6	$ 118.5	$ 81.6
Cash flow *(millions)*	$ 204.7	$ 179.6	$ 116.5
Hotels	71	69	65
Rooms	30,109	29,074	25,617
Employees *(full-time equivalent)*	20,314	17,295	12,800

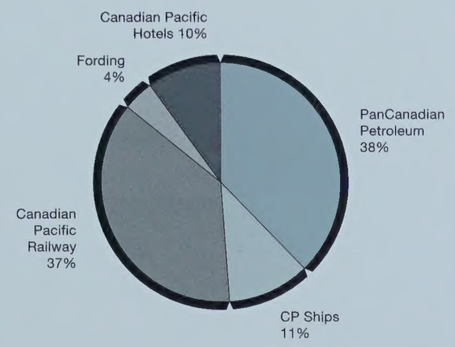
2000 Operating Income



2000 Revenues



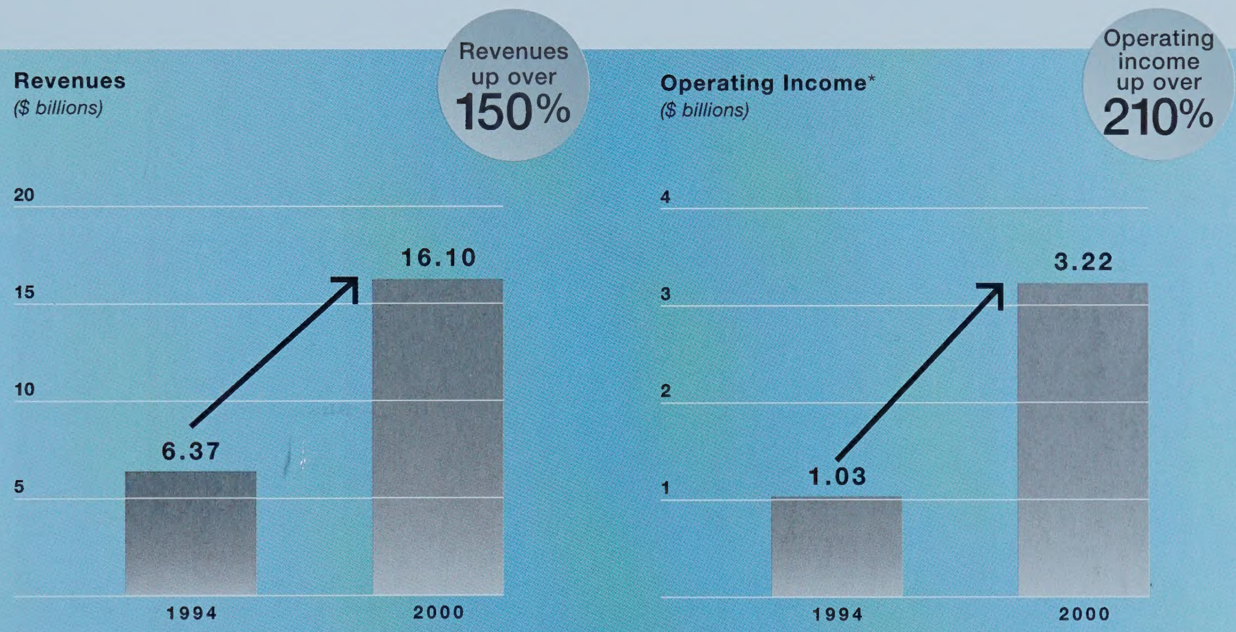
2000 Assets



Calgary-based Canadian Pacific is a diversified operating company active in transportation, energy and hotels. The Canadian Pacific group of companies includes Canadian Pacific Railway, CP Ships, PanCanadian Petroleum, Fording and Canadian Pacific Hotels & Resorts.

Core Businesses

Growing Profitably
in the second half of the 1990s



Since 1994:

Revenues up over 150%

Operating income up over 210%

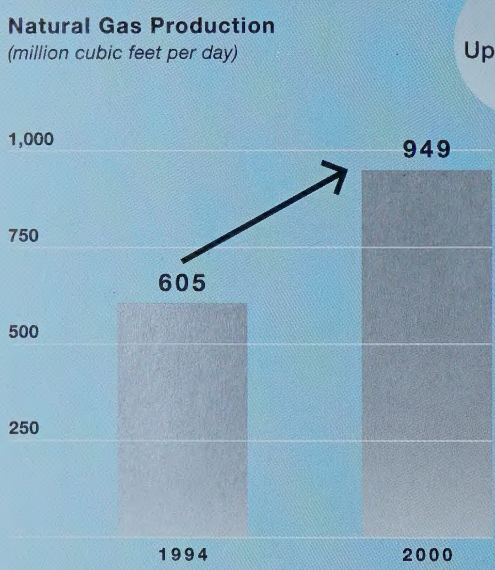
Earnings per share growth 25% per year†

Cash flow per share growth 20% per year†

* before special items
† compounded annual growth rate

Building Scale and Profitability across our Companies

Up 57%

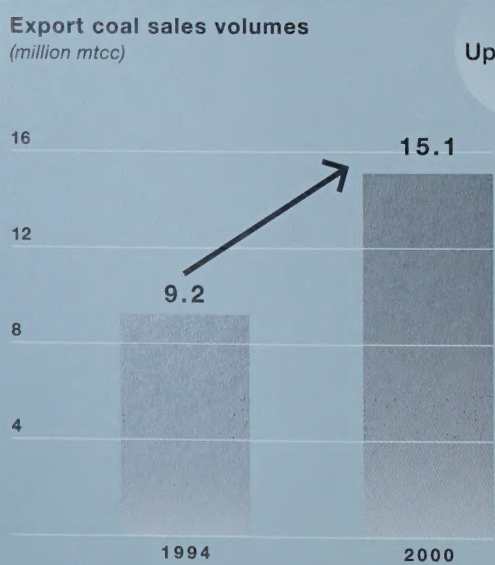


PANCANADIAN PETROLEUM
Growing Natural Gas Production

Natural gas production up 57%

Natural gas represents 56% of total productio

Up 64%

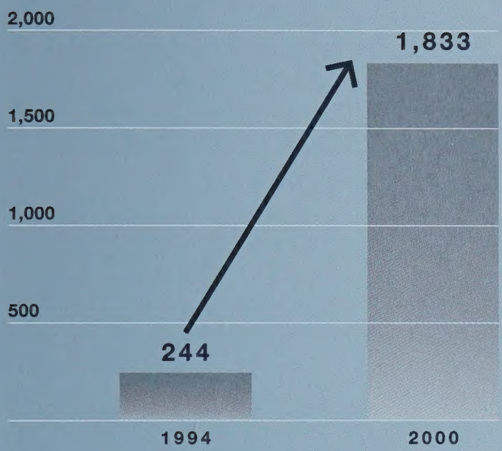


FORDING
Increasing Volumes

Export coal sales volumes up 64%

Canada's largest and lowest cost producer of metallurgical coal for export

Container Carryings
(thousand teu)



7½ Times Larger

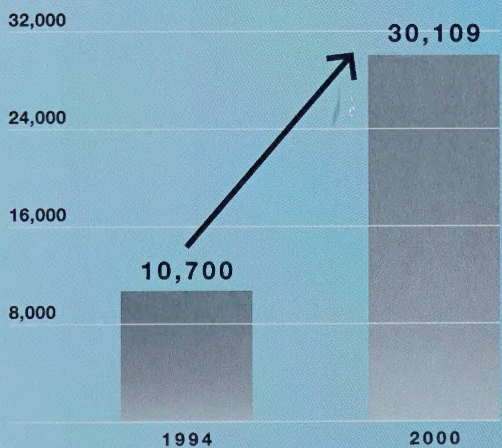
CP SHIPS

Developing a Global Franchise

Container carryings seven and a half times larger

Seventh largest container shipping company in the world

Rooms Under Management



3 Times Larger

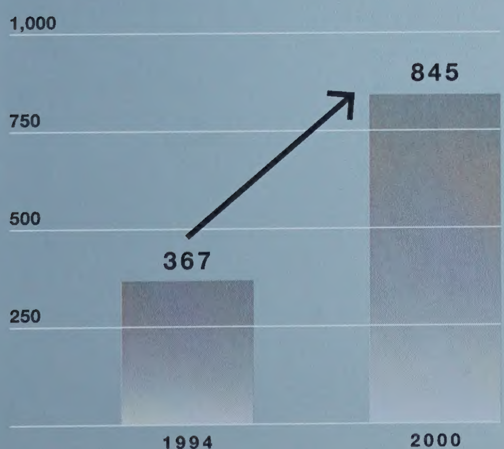
CANADIAN PACIFIC HOTELS

Building Our Brands

Three times more rooms under management

Two strong brands

Operating Income*
($ millions)



Up 130%

CANADIAN PACIFIC RAILWAY

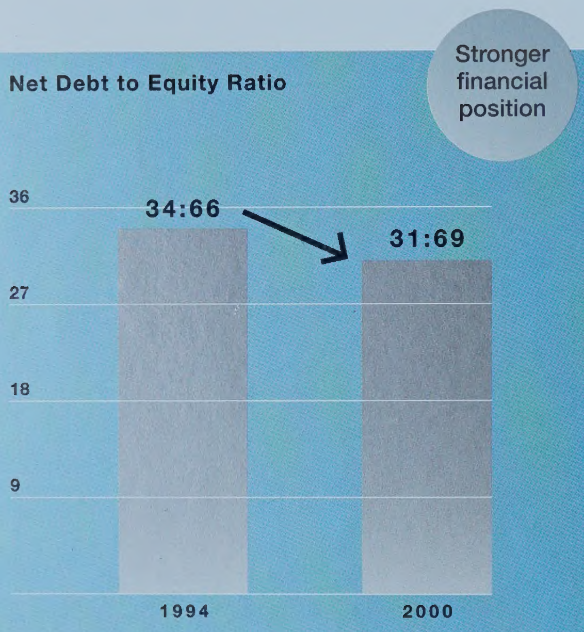
Driving Efficiencies

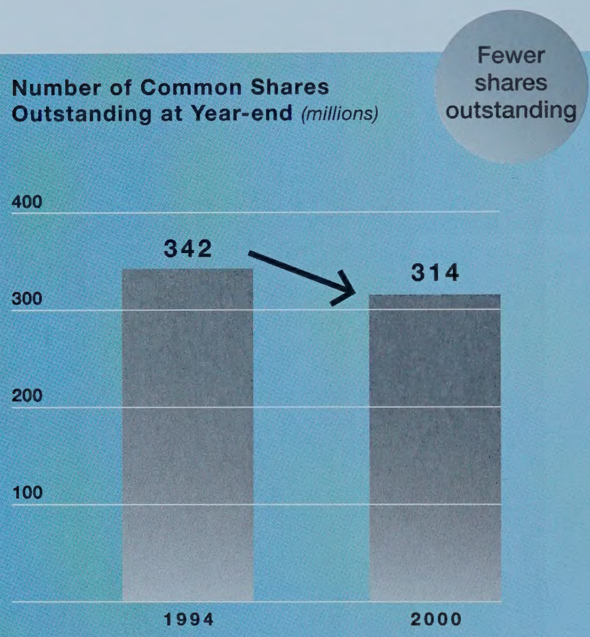
12.5 points off operating ratio*

Significantly improved asset utilization and productivity

* before special items

Strengthening
our financial position





The increased scale, scope and profitability of our businesses, combined with our solid financial position, give us a strong platform for growth.

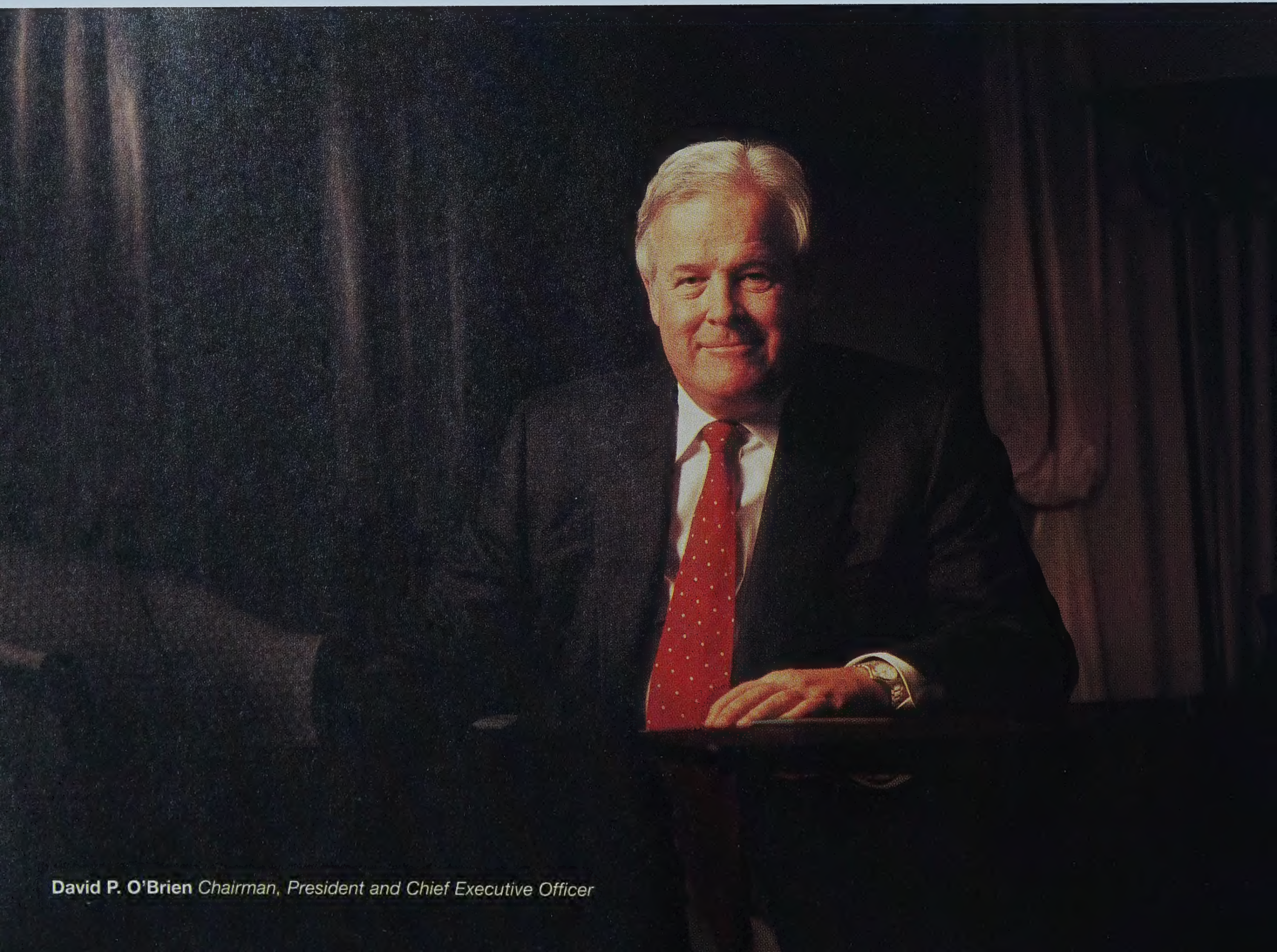
"By almost any measure, 2000 was a great year."

(in millions, except amounts per share)	**2000**	1999	1998
Income Items			
Revenues before special items	**$ 16,102**	$ 11,367	$ 10,107
Operating income before special items			
Canadian Pacific Railway	**$ 845**	$ 763	$ 721
CP Ships	**252**	129	178
PanCanadian Petroleum	**1,778**	568	252
Fording	**83**	64	129
Canadian Pacific Hotels & Real Estate Activities	**265**	223	181
	$ 3,223	$ 1,747	$ 1,461
Income before special items	**$ 1,767**	$ 896	$ 781
Special items (see table on page 19)	**–**	(302)	20
Net income	**$ 1,767**	$ 594	$ 801
Net income before special items available to common shareholders	**$ 1,755**	$ 886	$ 781
Per Common Share			
Income before special items	**$ 5.52**	$ 2.67	$ 2.32
Cash flow	**$ 12.33**	$ 7.09	$ 6.03
Market price at December 31 (Toronto Stock Exchange)	**$ 42.75**	$ 31.05	$ 28.75

Canadian Pacific produced record financial results and, operationally, the Corporation's businesses were bigger and stronger than ever.

(in millions, except share data)	**2000**	1999	1998
Financial Condition			
Cash flow	**$ 3,920**	$ 2,351	$ 2,025
Capital expenditures	**$ 2,587**	$ 1,977	$ 2,337
Total long term debt	**$ 4,457**	$ 3,541	$ 3,463
Net debt	**$ 4,722**	$ 3,745	$ 3,745
Shareholders' equity	**$ 9,556**	$ 8,269	$ 7,998
Total assets	**$ 24,166**	$ 19,950	$ 19,206
Net debt : equity ratio	**31 : 69**	30 : 70	31 : 69
Common Share Capital			
Average number of shares outstanding *(in millions)*	**318**	332	336
Number of registered shareholders at December 31	**34,210**	36,090	37,172
Number of Employees	**45,521**	42,240	39,207

Building scale and profitability Canadian Pacific had an outstanding year in 2000. We produced record financial results with over $3.2 billion of operating earnings, $3.9 billion of cash flow and $1.76 billion of net income. Operationally, we made our businesses bigger and stronger than ever. We increased natural gas production to more than one billion cubic feet per day, achieved the best operating ratio in the railway's history, moved a record 1.8 million containers with our ships and managed over 30,000 hotel rooms.



David P. O'Brien *Chairman, President and Chief Executive Officer*

By almost any measure, 2000 was a great year. We began to reap the benefits of our efforts, over the past six years, to increase the scale, scope and efficiency of our energy, transportation and hotel businesses. Since 1994, our revenues have increased more than 150% and our operating income has risen even more significantly – over 210%. Cash flow per share has increased three times and earnings per share have increased four times. At the same time, we have improved the financial strength of the company with our net debt to cash flow ratio down to 1.2 times from 2.5 times and the net debt to equity ratio dropping to 31:69 from 34:66. As well, we have reduced the number of shares outstanding from 341.8 million in 1994 to 314.0 million at the end of 2000.

We have expanded our horizons in our hotel and ocean shipping businesses, increased production significantly in our energy businesses and turned our railway into one of the more efficient in North America. This has created a powerful earnings and cash flow machine and established a new base level of earnings for the company. Even if we set aside PanCanadian's earnings which benefited from soaring energy prices, our other four businesses generated earnings in 2000 at a level comparable to those produced by the whole company in the late 1990s.

Expanding Our Horizons

While all of our businesses have changed significantly in the past six years, none has undergone a more sweeping transformation than Canadian Pacific Hotels & Resorts. In the mid-nineties, we were purely a Canadian hotel operator with representation in just one market segment and operating income just under $75 million. Today we have a major presence across North America in both the luxury and first-class market segments and operating income of over $250 million. With the acquisitions of Delta Hotels and Princess Hotels in 1998 and the creation of Fairmont Hotels & Resorts in 1999, we have tripled the number of rooms under management from 10,000 to over 30,000 and broadened our geographic and market segment penetration. We have grown from 24 properties in Canada to 71 properties throughout North America and the Caribbean, adding properties in key gateway cities in the United States and unique resort locations in the U.S., Mexico, Bermuda and the Caribbean.

Strategically, we have shifted our focus from property ownership to hotel management and the building of two unique brands – Fairmont and Delta. With the acquisition of Delta Hotels, we acquired a pure hotel management company in the first-class market segment. We then created Fairmont Hotels & Resorts, which elevated us to the largest luxury hotel management company in North America. With these two brands, we now have $2.5 billion of revenues under management compared to $575 million in 1994.

At the same time we built these hotel management businesses, we reduced our ownership of real estate. In late 1997, we realized net proceeds of over $640 million with the disposition of 11 business hotels to Legacy Hotels Real Estate Investment Trust (Legacy) and the acquisition of a one-third interest in Legacy. On these properties, we retained long-term management contracts, which become increasingly valuable over time. In February 2001,

we completed the sale of The Fairmont Empress in Victoria and Fairmont Le Château Frontenac in Quebec City to Legacy for $305 million, again retaining long-term management of these properties. As we move forward we will continue to realize value from our real estate portfolio and use the proceeds to grow the business by making selective acquisitions to further strengthen our brands.

Today, Delta Hotels is the largest first-class hotel management company in Canada, with 35 hotels and over 12,000 rooms. It is extending its participation in the resort market, developing new properties at the Sun Peaks Resort in British Columbia and the Glen Abbey Golf Club in Oakville, Ontario and taking over the management of ClubLink's four resorts in the Muskoka region north of Toronto.

Fairmont Hotels & Resorts manages 36 hotel and resort properties with more than 18,000 rooms. The recent rebranding of our Canadian luxury properties with the Fairmont Hotels & Resorts' name is expected to bring added business to our Canadian properties and strengthen the Fairmont brand. With these strong properties and brand awareness to build on, we are excited about Fairmont's further growth potential in North America and beyond.

CP Ships also evolved significantly during the last six years, developing from a niche player in a single trade on the North Atlantic into a major international player serving more than 50 countries around the world. It is a market leader in its major trade lanes and has participated in the consolidation of the shipping industry, growing into the seventh largest container shipping company in the world. In the process, it has established an outstanding reputation among competitors and customers alike for its high quality service, focused strategic approach and strong management capabilities.

Since 1994, CP Ships has increased its container carryings over seven times to 1.8 million teu a year. This expansion has come from the acquisition of seven new container lines as well as from new services and growth in existing business. Operating income has tripled, operating expenses per teu have decreased 7%, and cash flow has also tripled to $320 million. Operating return on capital employed has averaged more than 20% over the past six years. CP Ships is one of the most profitable container shipping companies in the world. We have been consistently profitable as a result of our unwavering focus on service levels and cost control even when the industry, as a whole, has suffered.

Rapidly Growing Natural Gas Production

In the past six years, with increasing production levels and a solid operating performance, PanCanadian has produced strong financial results with a 224% increase in cash flow and a 324% increase in operating income. Today, PanCanadian is one of Canada's largest oil and natural gas producers and has been Canada's most active driller for the last two years. In 2000, we drilled 2,530 wells and had a 95% success rate.

At PanCanadian, we decided several years ago to shift our focus to increasing natural gas production. This decision was based on our belief that natural gas represented the best value over the medium term and the timing was right to capitalize on PanCanadian's strong competitive position with gas prone lands located close to existing pipeline delivery systems. Today, with demand exceeding supply, limited reserves and the continental nature of the North American gas market, the fundamentals for natural gas are strong. As well, natural gas is viewed as an environmentally friendly energy source, which is attractive to some consumers. Certainly the strong pricing environment that we see today and for the next year supports our decision to focus on natural gas.

Since 1994, we have increased our natural gas production by 57%. Indeed, our fourth quarter 2000 production averaged over one billion cubic feet per day. In 2000, natural gas averaged 56% of our total production compared with 46% in 1994.

To support continued growth, PanCanadian has increased its land position by 210% since 1994, adding 2.5 million net acres on the Scotian Shelf, 2.3 million net acres in the Western Basin and 12.1 million net acres in other areas. With the Montana Power assets, we acquired 1.2 million net acres in October 2000. About half of them are undeveloped which gives us a huge platform for growth. Overall, PanCanadian has an unparalleled land position in the Western Basin with 10.4 million net acres, 56% of which is fee land which attracts a much lower mineral tax compared to the royalties payable on crown lands. Our proven reserve base of 1,042 million barrels of oil equivalent (boe) is 59% natural gas.

While PanCanadian's focus remains on our core position in the Western Basin, we also have large growth potential in other areas, particularly offshore Nova Scotia, where we have one of the largest land positions, and the Gulf of Mexico. Promising results from three appraisal wells at Deep Panuke indicate that this could be the most significant gas discovery in Atlantic Canada in the last 10 years. The Llano oil discovery in the deep water Gulf of Mexico has also yielded encouraging test results.

Our coal company, Fording, has faced challenging markets over the last three years. Export coal markets are only now starting to recover from the effects of the Asian flu. Nevertheless, Fording has increased production and maintained its position as Canada's most efficient producer. As a result, we have had the highest return on capital of any major Canadian mining company over the last five years and have generated free cash flow, after capital expenditures, throughout the downturn. We are Canada's largest and lowest cost producer of export coal and are expected to account for well over half of Canadian metallurgical coal sales in 2001. We have increased coal sales over 60% since 1994 and have significantly broadened our customer base so that we no longer rely primarily on Japanese steel mills for sales of export coal. This has helped cushion us from the effects of international price fluctuations. Last year, for example, the Japanese steel mills' benchmark price (JSM) for metallurgical coal dropped 5%, but Fording's average U.S. dollar price only declined 3%. The price for metallurgical coal sold in Europe did not decline by as much as the JSM price and, later in the year, actually exceeded it.

Fording's metallurgical coal reserve position is unequalled in Canada. We have 376 million metric tons of measured and indicated reserves with a reserve life of 24 years supplemented by an extensive resource base. With higher cost mines closing down in Canada and the United States, Fording is in an excellent position to take advantage of anticipated improvements in supply/demand fundamentals. U.S. coal exports have dropped from 45 million metric tons to 25 million since 1998. Three Canadian mines announced closures in 2000 and two others have limited life expectancies because of depleting reserves. Fording also has a dominant resource position in Alberta's subbituminous coal fields to support development opportunities for new coal-fired power stations.

Creating a More Efficient Railway

We have started to realize the potential of our rejuvenated railway system. Since 1995, we have invested $3.3 billion to revitalize Canadian Pacific Railway's network and renew its asset base. This is now paying off in sharply increased operating efficiencies, improved customer service and growing volumes.

Our operating ratio has dropped 12.5 percentage points in the last six years. It improved from 89.4% in 1994 to 76.9% last year in spite of the highest fuel prices since the Gulf War and a new cap on revenues earned from transporting regulated prairie grain. Today, we have the third best operating ratio among the major North American railroads.

On the revenue side, we have produced especially strong growth in our non-bulk business with traffic increasing significantly in our automotive and intermodal business. With this growth, we have achieved a better balance between non-bulk and bulk traffic, where we have been traditionally strong. We provide the shortest route from most of the key grain and fertilizer producing areas in Western Canada to the port of Vancouver and access key Canadian sulphur-producing regions. As well, we directly serve the most productive coal mines in Canada.

Increasingly, we are providing customers with scheduled railway service. We are hauling longer, heavier trains and moving traffic more quickly through our terminals. With the completion of our asset renewal program, the average age of our locomotives has dropped to 16 years from 22 years and intermodal terminal capacity has increased 32%. We are continuing to refine our new operating plan that was introduced in mid-1999 and have made significant productivity improvements in the past two years. Locomotive utilization, based on gross ton miles per available horsepower per day, is up 31% from 1998, fuel efficiency, based on litres per gross ton mile, improved 13%, and labour productivity, based on gross ton miles per employee, is up 28% in the same period. These improvements have lowered compensation and benefit costs, material expenses, locomotive rents and capital requirements.

The railway's financial performance has improved in step with its operating performance. Operating income has increased 130% since 1994, operating expenses per gross ton mile are down 21% and, in 2000, the railway produced substantial free cash flow.

The railway is not done yet as we are continuing our drive for greater efficiency. We are increasingly using new information technology as one way of achieving this objective. We are implementing industry leading information systems to broaden our information collection and analysis capabilities. With these systems, we will be able to facilitate order management, improve shipment performance and increase asset utilization, particularly in our yards and with our car fleet. Increased efficiency has also created increased capacity on all our lines. As improved customer service opens the door to more revenue growth opportunities, we will have the capacity to handle more traffic.

Record 2000 Performance

The last six years have been one of the most exciting and successful periods in Canadian Pacific's history and a lot of the work we did during those years came to fruition in 2000. As I said at the outset, it was a record year.

Net income available to common shareholders was $1.76 billion, or $5.52 per share, compared with $886 million, or $2.67 per share in 1999 excluding a special charge. Cash flow increased 67% to $3.9 billion, or $12.33 per share. Revenues increased 42% to $16.1 billion and operating income was up 85% to $3.2 billion. Our year-end net debt to equity ratio was 31:69 compared with 30:70 in 1999 and our net debt to cash flow ratio was 1.2:1 compared with 1.6:1 in 1999. Capital expenditures and acquisitions totalled $3.9 billion compared with $2.0 billion in 1999.

Four of our five businesses had record operating income in 2000. PanCanadian produced tremendous results with our large and growing natural gas and oil production receiving high prices. Canadian Pacific Railway had its fifth consecutive year of record operating income driven by cost reduction efforts and revenue growth. CP Ships' profitability rebounded after its tough year in 1999 and surpassed its previous record set in 1998. Canadian Pacific Hotels delivered its seventh consecutive year of record operating earnings as we started to see the benefits of the formation of Fairmont Hotels & Resorts. Fording's low-cost operations combined with improved export coal market fundamentals to produce a 30% increase in its operating income.

During 2000, our share price increased 38% from $31.05 at the end of 1999 to $42.75 at the end of 2000. We bought back 12.9 million common shares during the year and, in August, we renewed our share buy-back program for another year, allowing us to purchase up to 5% of the shares outstanding.

Positioned for Growth

I am encouraged by the prospects for our companies going forward. We have businesses with international scale and scope, competitive cost structures, and financial flexibility. The fundamentals for all our businesses are good and we have built strong platforms for future growth.

Canadian Pacific Railway will continue to focus on cost efficiencies and driving revenue growth to more fully utilize its capacity. In the next few years, rail alliances and strategic partnerships are likely to play an increasing role in creating new efficiencies and attracting traffic from other transportation modes. As one of the more efficient North American railroads, Canadian Pacific Railway is expected to be able to capitalize on these opportunities.

Industry forecasts indicate worldwide container trade will grow an average of 8% to 9% per year for the next few years. Fundamentals have improved in the last year as the industry continues to consolidate, supply and demand come into balance, and rates and profitability improve. CP Ships will strengthen its market position in its established trade lanes, leverage the increased scale of its operations to reduce costs, continue to invest in ships, containers and information systems, drive trade lane rationalization to improve market conditions, and participate in the industry consolidation process.

The outlook for natural gas and crude oil is excellent. Natural gas demand is strong, supply response has been slow, storage levels are low, and there is ample pipeline capacity. We expect natural gas production at PanCanadian to grow 15% in 2001 and in the 8% to 12% per year range over the next few years. Our Deep Panuke gas discovery has the potential to be very significant and could increase this production dramatically. PanCanadian has the potential to become one of the premier North American natural gas players over the coming years. On the crude oil side, several new projects in Western Canada, including a CO_2 enhanced recovery project at Weyburn, Saskatchewan

and a heavy oil project at Christina Lake in northeastern Alberta, will contribute to crude oil production. Overall, the pricing outlook for oil and particularly for natural gas is positive and PanCanadian's inventory of opportunities for exploration and development has never been stronger.

As market conditions improve, Fording plans to increase export coal sales from 15 to 16 million metric tons and can do so with limited capital investment. Fording will continue to enhance its position as a low-cost Canadian producer with declining strip ratios, higher productivity and limited capital requirements.

Canadian Pacific Hotels & Resorts is in one of the world's fastest growing industries. The travel and tourism industry is benefiting from favourable demographics, globalization and new technology. Receipts from international tourism are expected to triple over the next two decades as discriminating baby boomers make their impact felt in the leisure travel market. We are well positioned to capitalize on this trend with our leading brands in both the luxury and first-class markets. In 2001, we will be pursuing opportunities to build the Delta brand in Canada as well as opportunities to expand the Fairmont brand in North America and beyond. With the Fairmont brand now on all of our luxury properties, we will be taking full advantage of cross-marketing opportunities between Canadian and U.S. properties and between city and resort properties.

Our Board of Directors

In April 2000, we marked the untimely passing of Jim Fielding. Jim had been a director of Canadian Pacific since 1986. Jim's love of Canadian Pacific Railway was well known. In fact, it was said that his personal collection of CPR artifacts rivalled the company's own archives. Jim's dedication to Canadian Pacific is greatly missed.

Ron Southern will retire from the Canadian Pacific board at our 2001 annual meeting. Ron has been involved with Canadian Pacific since 1974 when he joined the Board of Canadian Pacific Enterprises. When Canadian Pacific Enterprises was merged with Canadian Pacific Limited, Ron joined the Canadian Pacific board and we have since benefited greatly from Ron's considerable business experience. We thank him for his significant contribution to the affairs of the Corporation.

A New Era

In February 2001, we announced our intention to divide the Corporation into five separate companies. We believe that this reorganization will maximize value for our shareholders now, by unlocking the current value of Canadian Pacific's business and, in the future, by strengthening the companies' abilities to pursue even greater success as independent companies. The Board of Directors considered a number of alternatives but unanimously concluded that the time is right and that the highest value could be achieved by enabling our diverse businesses to stand as separate public companies. We expect that the transaction will be completed in the fall of 2001.

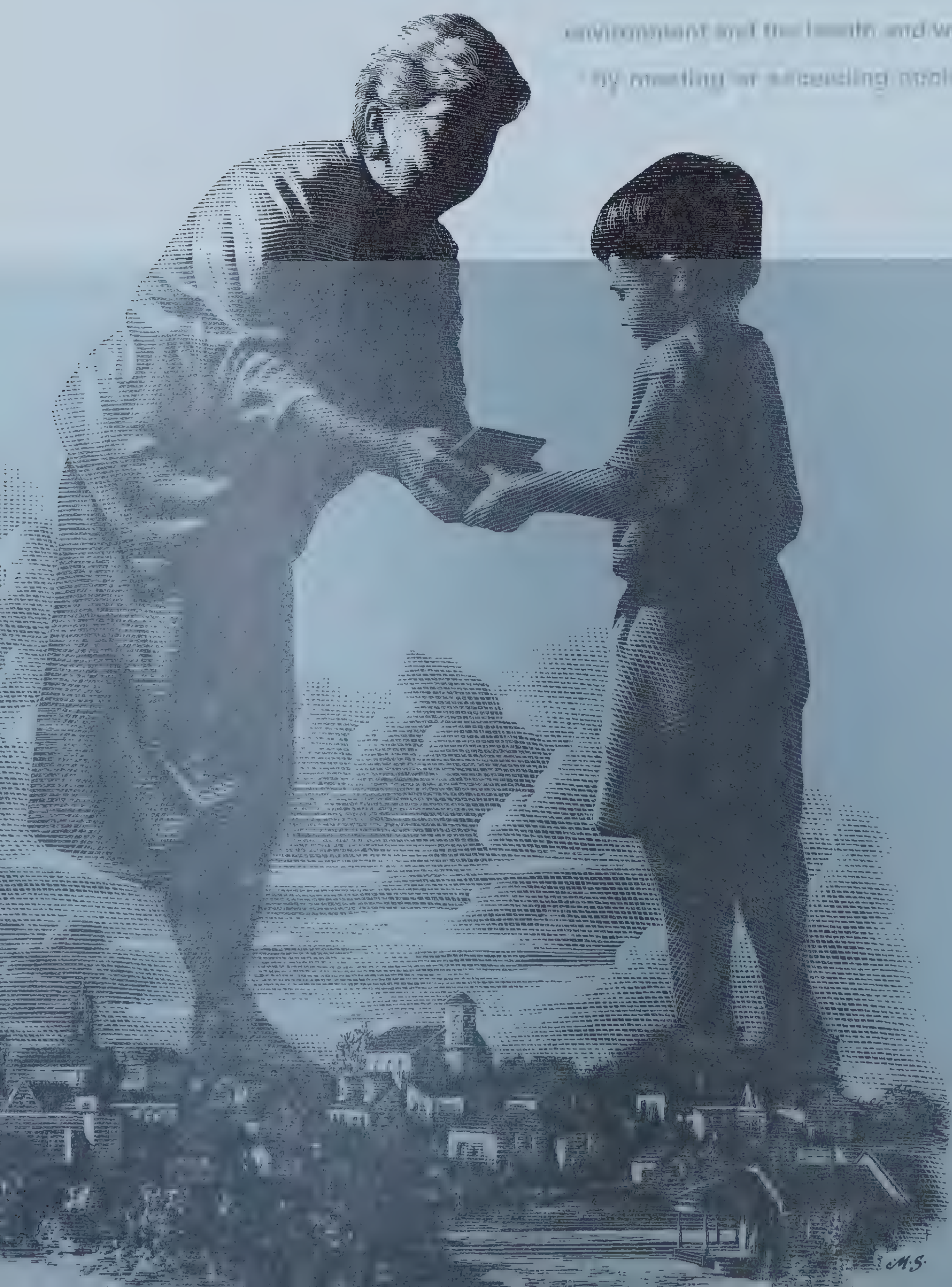
I would like to take this opportunity to thank all of the employees of the Canadian Pacific group of companies for their hard work and dedication during my years at Canadian Pacific. I would especially like to thank the Canadian Pacific employees who will be moving to new challenges following the completion of the transaction. People make things happen and the success that we have achieved in growing and strengthening our companies would never have been possible without the support of our skilled and energetic employees around the world.

We have strong management teams in place across the companies and I know that each of the companies will continue to grow and prosper. Throughout its history, Canadian Pacific has evolved and adapted to changing times and circumstances. This is yet another step in the evolution – the end of one era and the start of another.

David P. O'Brien
Chairman, President and
Chief Executive Officer

February 12, 2001

At Canadian Pacific, we believe strongly in our responsibility to the environment and to the communities where our companies do business and where our employees live and work. Our companies are committed to conducting their activities and operations so as to protect the natural environment and the health and welfare of their employees and others by meeting or exceeding applicable governmental requirements.



Our Commitment to the Environment, Health and Safety

Each company has a comprehensive environmental system that includes audits, legal compliance and reporting. As well, company employees receive applicable training for their respective industry to ensure a healthy and safe workplace.

Whether it is a land reclamation project at our energy companies, a safety program at our transportation companies or our globally recognized environmental hotel program, our companies demonstrate their commitment to environment, health and safety in their daily operations.

Our Commitment to the Communities in which We Operate

Through the Canadian Pacific Charitable Foundation, we are committed to making a difference in communities where our operating companies around the world have a presence and where our employees live and work.

In 2000, the Canadian Pacific Charitable Foundation made cash contributions of approximately $7 million to worthy charitable organizations. The Foundation supports effective programs in the following categories of giving: United Way/Centraide annual campaigns, education, creativity and innovation, social services, youth development, environment, health and community. In addition, PanCanadian Petroleum donated over $1.8 million through its separate corporate contributions program, which is coordinated with the Foundation. Our companies also contributed goods and services with an in-kind value of approximately $2 million this year.

In 1999, we created the $2 million Canadian Pacific Heritage Fund to help communities develop projects that will preserve and celebrate Canada's history while creating benefits for the future. In April 2000, the Foundation granted nearly $1 million during Phase One of the Canadian Pacific Heritage Fund to 21 community-based projects such as libraries, museums, parks and heritage buildings. Phase Two Heritage Fund grants will be awarded in March 2001.

The Foundation continues to recognize and support the volunteer efforts of our employees through the Canadian Pacific Employee Volunteer Grant Program which was created in 1998. Since then, the Foundation has awarded over $150,000 in the form of $500 grants to charitable organizations where a Canadian Pacific employee annually volunteers 50 hours or more. Furthermore, the Canadian Pacific Charitable Foundation has taken a leadership role in promoting volunteerism across Canada by providing the lead support to Volunteer Canada's National Volunteer Week and in 2001 we are the National Sponsor of Volunteer Canada's International Year of Volunteers program.

We continue to be a proud corporate sponsor of the Imagine Campaign, established by the Canadian Centre of Philanthropy, which encourages personal and corporate philanthropy through donating at least one percent of pre-tax profits to charitable organizations. With a $500,000 commitment from the Canadian Pacific Charitable Foundation, Imagine is launching an initiative to encourage the teaching of Corporate Social Responsibility as an integrated part of business education at the MBA and Executive MBA levels in Canadian business schools. We believe this innovative program will help Canada's future business leaders manage their businesses in a socially responsible way.

This Management's Discussion and Analysis for Canadian Pacific Limited (Canadian Pacific or the Corporation) and all of its subsidiaries is supplemental to the consolidated financial statements and [illegible] contained in the 2000 Annual Report to Shareholders. The financial statements for the year ended December 31, 2000 were prepared in accordance with generally accepted accounting principles (GAAP) in Canada. Differences from GAAP in the United States are disclosed in Note 22 [illegible] of the Annual Report.

OVERVIEW

In 1999 and 2000, Canadian Pacific produced record income and cash flow. Since the mid 1990s, the Corporation significantly increased the scope and scale of its operating companies and improved their cost structures. These bigger, stronger businesses were well positioned to deliver robust earnings and cash flow as the business environment improved.

In 2000, PanCanadian's production increases and cost controls combined with a strong energy pricing environment to produce its record results, with its operating earnings and cash flow up 213% and 123%, respectively, from 1999. While PanCanadian was the key driver of Canadian Pacific's stronger performance, the other businesses also generated strong results. The combined operating income and cash flow contributions of the other businesses increased 23% and 17%, respectively, in 2000 versus 1999, with Canadian Pacific Railway, CP Ships and Canadian Pacific Hotels reporting record results. Canadian Pacific Railway reported its best-ever operating ratio in 2000. CP Ships optimized its expanded trade lane services and benefited from a rebound in ocean freight rates. Canadian Pacific Hotels continued to build its two unique brands, Fairmont and Delta, and capitalized on the solid fundamentals in the luxury and first-class segments of the lodging industry. In addition, Fording closed 2000 with a record sales volume and improving selling prices for metallurgical coal.

PanCanadian Increasing Natural Gas Production

PanCanadian's natural gas production rose 12% in 2000, while cost containment efforts kept operating costs per barrel of oil equivalent (boe[1]) low at $3.98 despite higher electricity and other input costs. As well, the reserve replacement ratio in the Western Basin averaged 160%.

PanCanadian continued to develop an inventory of new natural gas and crude oil prospects expected to be brought on stream over the coming years. In natural gas, these opportunities include further development of the low-cost shallow and deep natural gas reserves in the Western Canadian Sedimentary Basin, enhanced production from the assets acquired in 2000 from The Montana Power Company (Montana Power), and potentially the Deep Panuke discovery offshore Nova Scotia. PanCanadian is also focused on increasing its western Canadian crude oil production. Incremental production from the Weyburn carbon dioxide miscible flood project is expected later in 2001. PanCanadian also received a permit to proceed with a steam-assisted, gravity-drainage, heavy oil project at Christina Lake with added production planned for 2002.

Fording's Export Coal Markets Improving

At Fording, there was some strengthening in prices on spot market sales later in 2000, as the closure of competitors' uneconomic mines reduced supply and a recovery in Asian steel production increased demand. The stronger market conditions for export coal combined with a record sales volume of 15.1 million tonnes and lower unit operating expenses to produce an improvement in Fording's operating income contribution in 2000.

Canadian Pacific Railway Benefiting from Improving Asset Utilization

Canadian Pacific Railway produced another record operating income in 2000. Despite higher fuel costs and an increase in workload, the operating ratio improved to 76.9% in 2000 down from 78.2%, excluding a special charge, in 1999. The revitalized asset base, together with a new operating plan and enhanced information technology, is allowing the railway to operate more efficiently and improve its services. As well, strategic alliances in co-production and marketing lowered operating costs and yielded new revenue opportunities. In 2000, revenues also benefited from significant gains in modal competitive traffic and a recovery in some bulk commodities, notably grain.

CP Ships Optimizing its Regional Networks

CP Ships experienced a modest recovery in freight rates in 2000 which, combined with the advantages of expanded operations and cost reduction efforts, led to record earnings. Container carryings grew by 34% in 2000 due to the acquisition early in 2000 of its partner's 50% interest in Americana Ships and also underlying growth of 7%. Despite higher fuel prices, CP Ships was able to leverage the scale of its operations to drive costs down further and strengthen its market position in its established trade lanes.

[1] In this report, oil equivalent volumes are converted at 6,000 cubic feet of natural gas to one barrel of oil.

Canadian Pacific Hotels Expanding Hotel Management with the Fairmont and Delta Brands

Canadian Pacific Hotels posted record results in 2000, with increased contributions from both management and ownership operations. Operating income from ownership operations rose 6% from 1999, due largely to a higher contribution from certain non-Canadian resort properties acquired in 1998. Earnings from management operations grew 70% in the last year. This growth mainly stemmed from the addition of managed properties, with the formation of Fairmont Hotels & Resorts in October 1999. Delta Hotels continued to expand, and completed a number of agreements that will add to the resort component of its portfolio and are expected to make positive contributions going forward. Late in 2000, the Fairmont brand was extended to the luxury properties in Canada to enhance revenue opportunities and, early in 2001, a Fairmont hotel in Hawaii was added. Canadian Pacific Hotels' objective is to continue to pursue opportunities to grow its brands, Delta in Canada and Fairmont in North America and internationally, with a primary focus on the addition of new properties under management.

Business Environment

In 2000, Canadian Pacific capitalized on a generally favourable business environment. Global economic expansion and OPEC's production restraint contributed to a sharp rise in crude oil prices which had a net advantage for the Corporation as benefits to PanCanadian more than offset higher fuel costs at the other businesses, particularly the transportation companies. The current expectations are for slightly lower crude oil prices in 2001 as demand growth is expected to slow and OPEC's production increases during 2000 have mitigated supply concerns. In Canadian natural gas markets, prices also rose given economic growth in North America, limited availability of new supplies and improved access for western Canadian natural gas to U.S. markets. While North American market fundamentals currently support an elevated range for natural gas prices, the gap between growth in supply versus growth in demand is expected to narrow in the future and prices are expected to moderate.

At Canadian Pacific Railway, the economic expansion in North America supported growth in intermodal, automotive and industrial products shipments, though competitive pressure from other railroads and trucking companies adversely affected freight rates. Grain, sulphur and fertilizer revenues were positively affected by stronger demand in international markets that led to a recovery in exports. Effective August 1, 2000, the Canadian government enacted legislation that established a grain revenue cap on regulated Canadian export grain which represents a reduction of 18% in grain freight revenues from the previously proposed 2000-2001 crop year levels. This legislation applies to approximately 50% of the railway's revenue from the shipment of grain products. Revenue from the movement of export coal remained depressed as rates reflected lower market prices. A major customer for the railway is another Canadian Pacific company, Fording, that accounts for approximately 60% of the railway coal traffic and whose benchmark Japanese Steel Mills (JSM) contract price for metallurgical coal was down 5% in the coal year starting April 1, 2000. Spot prices for metallurgical coal are strong and negotiations between Fording and the JSM are continuing with the expectation that the contract price for the coal year starting April 1, 2001 will increase.

The railway expects its bulk revenues in 2001 to benefit from strength in the broader world economy that continues to stage a recovery with the growth in the Asian economies. Revenues from the other traffic groups are anticipated to grow if the North American economy continues to post modest growth.

During 2000, world trade growth was strong and the overall supply/demand of containerships was balanced. Most carriers concentrated on rationalizing capacity with joint operations to stabilize markets. In 2001, reasonable economic growth in Europe and elsewhere in the world, combined with CP Ships' strong market position, is expected to offset the effect of slower economic growth in the U.S.

Demand at Canadian Pacific Hotels' business and resort properties also benefited from strong business and consumer spending during a period of healthy economic growth. In most markets, room rates strengthened and occupancy held as supply additions remained in balance with demand growth. A weak Canadian dollar also benefited results at the Canadian hotel operations. For 2001, Canadian Pacific Hotels expects a continuation of the positive hotel fundamentals and will continue to pursue opportunities to build the Fairmont and Delta brands.

CONSOLIDATED RESULTS

Record Consolidated Results in 2000 Reflect New Highs at PanCanadian, Canadian Pacific Railway, CP Ships and Canadian Pacific Hotels

Consolidated results in 2000 set a record and were well ahead of 1999 and 1998 due to strong performances from all of the operations. Net income available to common shareholders was $1,755 million in 2000 as compared with $886 million in 1999 and $781 million in 1998, excluding special items in those years. On the same basis, earnings per common share were $5.52 in 2000, up 107% from $2.67 in 1999 and up 138% from $2.32 in 1998. These results produced returns on average shareholders' equity of 19.8% in 2000, 11.0% in 1999 and 10.0% in 1998.

In 2000, the Corporation's businesses, mainly Canadian Pacific Railway and Canadian Pacific Hotels, benefited by approximately $140 million from an announced reduction of federal income tax rates. This benefit was offset by a pre-tax writedown of $49 million, or $38 million after tax, in respect of certain international exploration ventures, and an additional provision of $77 million for future taxes related to non-recurring items recorded by PanCanadian.

Income Excluding Special Items

(in millions, except per common share amounts)	**2000**	1999	1998
Operating income			
Canadian Pacific Railway	**$ 845**	$ 763	$ 721
CP Ships	**252**	129	178
PanCanadian Petroleum	**1,778**	568	252
Fording	**83**	64	129
Canadian Pacific Hotels & Real Estate Activities	**265**	223	181
	$ 3,223	$ 1,747	$ 1,461
Income available to common shareholders			
Canadian Pacific Railway	**$ 532**	$ 364	$ 347
CP Ships	**234**	107	168
PanCanadian Petroleum	**894**	302	131
Fording	**33**	27	66
Canadian Pacific Hotels & Real Estate Activities	**156**	121	100
Other Activities	**(37)**	14	2
Income before goodwill charges and preferred dividends	**1,812**	935	814
Goodwill, net of tax	**45**	39	33
Preferred dividends	**12**	10	–
	$ 1,755	$ 886	$ 781
Per common share	**$ 5.52**	$ 2.67	$ 2.32

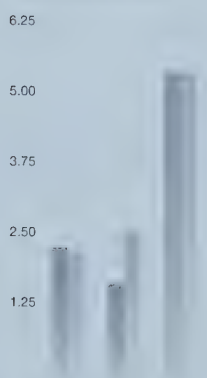
PanCanadian, Canadian Pacific Railway and Canadian Pacific Hotels each reported record operating income contributions in 1999 and 2000 and CP Ships reported its best-ever results in 2000. Consolidated operating income was $3,223 million in 2000 and improved by 84% over $1,747 million in 1999 and 121% over $1,461 million in 1998, excluding special items. On the same basis, the return on average capital employed at the operating income level (ROCE) was 17.7% in 2000, 10.9% in 1999 and 10.3% in 1998.

Growing earnings contributed to a record cash flow of $3,920 million, or $12.33 per common share, in 2000. This was up significantly from $2,351 million, or $7.09 per common share, in 1999 and $2,025 million, or $6.03 per common share, in 1998. The net debt to cash flow ratio improved to 1.2:1 from 1.6:1 at year-end 1999 and 1.8:1 at year-end 1998.

The Corporation's revenues amounted to $16,102 million in 2000, up $4,735 million, or 42%, over 1999 and $5,951 million, or 59%, over 1998. The revenue increases were due principally to better crude oil and natural gas prices, higher natural gas production and increased marketing activities at PanCanadian. As well, Canadian Pacific Hotels contributed higher revenues with the formation of Fairmont Hotels & Resorts in 1999 and CP Ships' revenues were up due to the acquisition of its partner's interest in Americana Ships and internal growth.

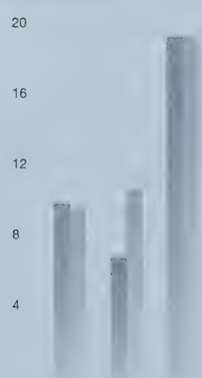
Results were affected by special items, particularly in 1999 when the railway operation booked a special charge primarily for liabilities associated with workforce reductions. Consolidated net income to common shareholders including special items was $1,755 million, or $5.52 per share, in 2000, $584 million, or $1.76 per share, in 1999, and $801 million, or $2.39 per share, in 1998. On this basis, the Corporation's operating income was $3,223 million in 2000, $1,246 million in 1999 and $1,476 million in 1998.

Income Per Common Share
($)
Including Special Items
Excluding Special Items



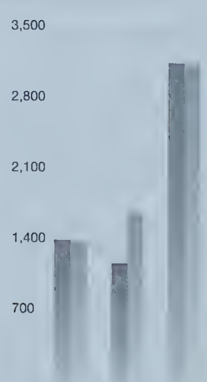
	98	99	00
Including Special Items	2.39	1.76	5.52
Excluding Special Items	2.32	2.67	5.52

Return on Average Shareholders' Equity
(%)
Including Special Items
Excluding Special Items



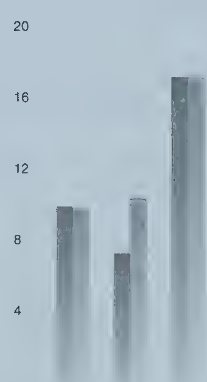
	98	99	00
Including Special Items	10.3	7.3	19.8
Excluding Special Items	10.0	11.0	19.8

Consolidated Operating Income
($ millions)
Including Special Items
Excluding Special Items



	98	99	00
Including Special Items	1,476	1,246	3,223
Excluding Special Items	1,461	1,747	3,223

Return on Average Capital Employed
(%)
Including Special Items
Excluding Special Items



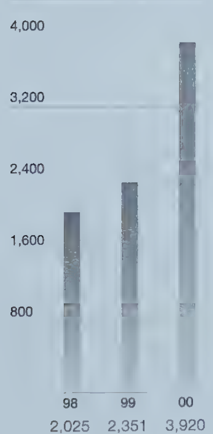
	98	99	00
Including Special Items	10.4	7.8	17.7
Excluding Special Items	10.3	10.9	17.7

Special items are detailed in the table below. In the second quarter of 1999, Canadian Pacific Railway recorded a charge of $501 million pre tax, or $302 million after tax, mainly relating to the intended elimination of approximately 1,900 positions, most of which were completed by year-end 2000. The workforce reduction was facilitated by the railway's significant investment program over the second half of the 1990s, which revitalized the franchise and allowed for increased productivity. The balance of the provision was largely due to costs associated with an expanded environmental remediation program. In 1998, a special gain of $15 million to operating income and $20 million to net income, after offsetting tax provisions, was booked by Canadian Pacific Railway primarily due to the sale of a marine freight operation.

Special Items

(in millions)		Operating Income		Net Income
Effect on 1999:				
Canadian Pacific Railway special charge	$	(501)	$	(302)
Effect on 1998:				
Gain on disposition of coastal marine freight operation	$	44	$	36
Canadian Pacific Railway's costs associated with Year 2000 issues		(29)		(16)
Total for 1998	$	15	$	20

Cash Flow
($ millions)



Consolidated Revenues
($ millions)

Growing Cash Flow and Strong Financial Position Support Strategic Investments for Increased Scale and Scope

Consolidated cash flow increased by 67% to $3,920 million in 2000 following a 16% increase to $2,351 million in 1999. The improvement was due chiefly to PanCanadian's higher cash flow, which at $2,473 million in 2000 was up 123% from 1999 and 208% from 1998. Canadian Pacific Railway, CP Ships and Canadian Pacific Hotels also recorded cash flows in 2000 that were significantly improved from their levels in the previous two years.

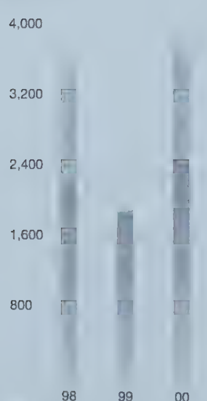
The Corporation used some of its cash flow to strengthen its businesses and pursue profitable growth. Disciplined expenditures on asset improvements contributed to lower costs. As well, selective investments capitalized on opportunities to grow the businesses. Net investing activities totalled $3,720 million in 2000, $1,827 million in 1999 and $3,369 million in 1998.

Additions to properties totalled $2,587 million in 2000, $1,977 million in 1999 and $2,337 million in 1998, mainly for maintenance and profit-improving expenditures. There were also significant investments in 2000 including PanCanadian's acquisition of crude oil and natural gas assets from Montana Power, which built on PanCanadian's strong position in Western Canada. Early in the year, PanCanadian also purchased interests in the Scott/Telford operations in the United Kingdom Central North Sea, bringing holdings in that region to over 680,000 gross acres and establishing another core region with strong potential in both development and exploration. CP Ships' acquisition in 2000 of its partner's 50% interest in the Americana Ships joint venture brought new opportunities for operational synergies and improved services. Similarly, Canadian Pacific Hotels strengthened its operations by acquiring its partner's 80% interest in The Fairmont Chateau Whistler. There was a small amount of investment spending in 1999, but during 1998 Canadian Pacific Hotels purchased Princess Hotels and Delta Hotels, and CP Ships acquired Ivaran Lines and ANZDL.

The Corporation also continued to focus on maximizing profitability by selling underperforming or non-core assets and surfacing value on other assets. Proceeds from asset sales amounted to $306 million in 2000, up from $178 million in 1999 and $158 million in 1998. Proceeds were principally realized from the sale of surplus or underperforming assets by Canadian Pacific Railway, mainly operations at the Weston Shops in Winnipeg and its interest in Union Station in Toronto in 2000 and coastal marine operations in 1998, and by PanCanadian from the sale of interests in the Weyburn unit and the Manito pipeline in 2000 and other properties throughout the period. Proceeds also included CP Ships' sale and leaseback of containers in 2000 and the sale by Canadian Pacific Hotels of properties, the Delta Toronto East and the Four Points Hotel Toronto Airport, to Legacy Hotels Real Estate Investment Trust in 1999.

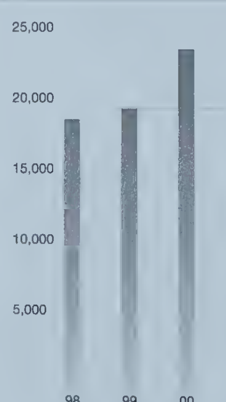
Investment Spending
($ millions)

Acquisitions
Capital Investment



	98	99	00
Acquisitions	1,243	28	1,263
Capital Investment	2,337	1,977	2,587

Consolidated Assets as at December 31
($ millions)



98	99	00
19,206	19,950	24,166

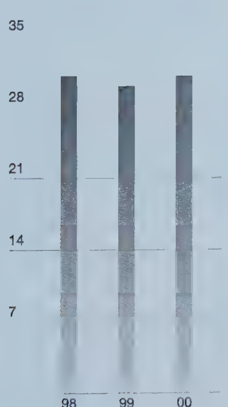
Management's efforts to maximize shareholder value not only include an efficient allocation of resources for business unit growth, but also an active buy-back program for common shares. Since its inception, spending on this program amounted to $438 million for the purchase of 12.9 million shares in 2000, $223 million for 6.7 million shares in 1999, $325 million for 8.8 million shares in 1998 and $272 million for 7.0 million shares in 1997. Consequently, the average number of common shares outstanding in 2000 decreased to 317.9 million from 331.5 million in 1999, 335.8 million in 1998 and 345.4 million in 1997. The Corporation also increased its quarterly dividend by two cents per common share, up to 14 cents, effective with the dividend payable in July 1998.

The net debt to equity ratio remained consistently low at 31:69 at year-end 2000, 30:70 at year-end 1999 and 31:69 at year-end 1998. The consolidated net borrowing position at December 31, 2000 was $4,722 million, with a strong net debt to cash flow ratio of 1.2:1. A strong financial position gives Canadian Pacific the flexibility for continued investment for growth.

Share Price

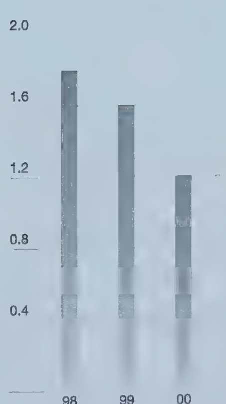
The Corporation's common share price on The Toronto Stock Exchange (TSE) for the year 2000 ranged from a low of $26.80 to a high of $44.85 and closed at $42.75 on the last day of trading. The 1999 and 1998 common share closing prices on the TSE were $31.05 and $28.75, respectively.

Net Debt as a Percentage of Net Debt plus Equity as at December 31



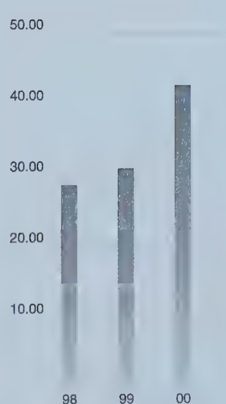
31 30 31

Ratio of Net Debt to Cash Flow as at December 31



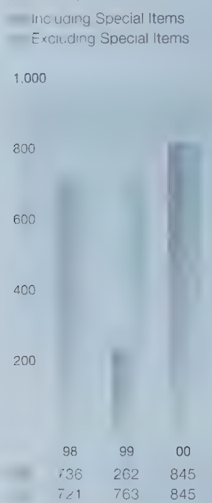
1.8 1.6 1.2

Closing Share Price *($)*

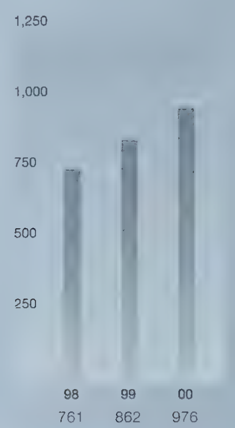


28.75 31.05 42.75

Operating Income
($ millions)



Cash Flow
($ millions)



Canadian Pacific Railway's Network

Canadian Pacific Railway's operating income excluding special items grew by 17% since 1998, with 2000 being another year of record operating income. Despite sharply higher fuel prices, the operating ratio improved to under 77% in 2000 from just over 79% in 1998 because of a franchise renewal and an improved operating plan.

The railway's franchise renewal program involved the acquisition of new high performance locomotives, expansion of intermodal terminals, upgrades of the car fleet and modernization of train yards. This $3.3 billion, four-year program was substantially completed in 1999. Implementation of a new operating plan in mid-1999, as well as consolidation of administrative functions and rationalization of mechanical shops and engineering functions, leveraged the investment in assets to produce new operating efficiencies. Consequently, the railway has been able to capitalize on opportunities to reduce operating costs, improve productivity and enhance service levels. More recent initiatives targeted at upgrading the information technology infrastructure included new systems designed not only to improve data management, but also to provide additional information on asset management, employee productivity, business segment profitability and service performance. Four major information systems dealing with the management of intermodal terminals and rail yard operations, the matching of customer requests with car supply, and trip planning are expected to be implemented by the end of 2001 and will enhance the operation of a scheduled railway.

Canadian Pacific Railway has been successful in developing strategic alliances and partnerships to achieve greater efficiency and develop new business opportunities. In 2000, the railway concluded, among others, three diverse, yet strategic agreements. Canadian Pacific Railway agreed to a comprehensive shared access arrangement with Norfolk Southern in the Northeastern U.S., joint commercial, routing and switching agreements with Union Pacific, and co-production agreements with Canadian National in Ontario, Western Canada and the Northeastern U.S.

Operating Income and Cash Flow

Operating income of $845 million in 2000 was up $82 million from $763 million in 1999 and up $124 million from $721 million in 1998, excluding special items. In 2000 and 1999, there was solid growth in revenues from shipments of intermodal and automotive products chiefly because of a healthy economy, the railway's strong service offering and continued strong customer relationships. During the same period, weaker revenues from bulk commodity shipments, including coal, sulphur and fertilizers, were only partially alleviated with a recovery in export grain revenues in 2000.

Successful cost-control initiatives led to improvements in the operating ratio, down to 76.9% in 2000 from 78.2% in 1999 and 79.2% in 1998, excluding special items in 1999 and 1998. ROCE, excluding special items, was 11.6% in 2000 and compared with 11.3% in 1999 and 12.2% in 1998. The partial recovery in 2000 reflected the initial benefits to operating income of the large investment in the asset base over the 1997 – 1999 period.

The railway's cash flow reached $976 million, up $114 million from 1999 and $215 million from 1998. Importantly, free cash flow rose as capital expenditures of $571 million in 2000 were down $272 million from 1999 and down $531 million from 1998. The lower capital spending was due to the substantial completion in 1999 of the franchise renewal program.

While the railway's operating income increased 11% in 2000, there was a much sharper rise in net income, up 46% to $532 million. The federal government has announced a reduction in the corporate tax rate for certain industry sectors from 28% to 21% over a four-year period ending in 2004. These changes will reduce Canadian Pacific Railway's future taxes and the railway recognized a $131 million decrease in its future tax liability in the fourth quarter of 2000.

Canadian Pacific Railway

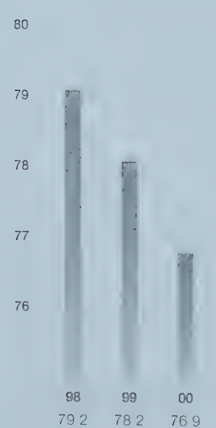
(in millions, excluding special items)	**2000**	1999	1998
Revenues	**$ 3,655**	$ 3,496	$ 3,472
Expenses	**2,810**	2,733	2,751
Operating income	**$ 845**	$ 763	$ 721
Operating ratio	**76.9%**	78.2%	79.2%

Revenues

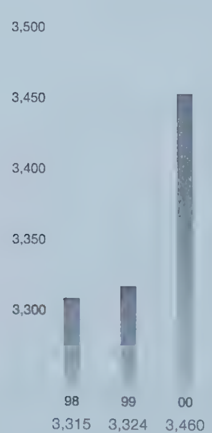
Revenues were $3,655 million in 2000 and compared with $3,496 million in 1999 and $3,472 million, excluding a special gain on a non-core asset sale, in 1998. The railway derives most of its revenues from the movement of freight. Freight revenues rose to $3,460 million in 2000 from $3,324 million in 1999 and $3,315 million in 1998. Switching, demurrage and terminal service charges as well as real estate activities are the principal contributors to other revenues that totalled $195 million in 2000, $172 million in 1999 and $157 million in 1998, excluding the special item.

Revenue-ton-miles (RTMs) of 110.4 billion in 2000 were up 10% from 100.4 billion in 1999 and 15% from 96.1 billion in 1998. Throughout the last two years, the railway continued to grow its modal competitive businesses, including intermodal and automotive traffic, and forest products shipments. In 2000, bulk commodity movements rebounded due to stronger international demand for grain, fertilizers and coal.

Operating Ratio Excluding Special Items
(%)



Freight Revenues
($ millions)



Competitive pressures and lower coal rates in both years, as well as a government imposed grain revenue cap, effective August 2000, resulted in lower revenues per RTM. Revenues per RTM for coal declined 9% in 2000, 12% in 1999 and for grain were down 5% in 2000 and 4% in 1999, with overall revenue per RTM declining to 3.13 cents in 2000 from 3.31 cents in 1999 and from 3.45 cents in 1998. However, persistently high fuel prices and stronger fundamentals for the rail and truck markets led to the announcement in 2000 of fuel surcharges and rate increases. As new contracts are signed, some yield improvements are expected as other railroads and trucking companies are expected to follow suit and increase their rates.

Revenues

(in millions)	2000	Changes Volume	Changes Price	1999	Changes Volume	Changes Price	1998
Freight revenues	**$ 3,460**	330	(194)	$ 3,324	150	(141)	$ 3,315
Other revenues	**195**			172			201
	$ 3,655			$ 3,496			$ 3,516

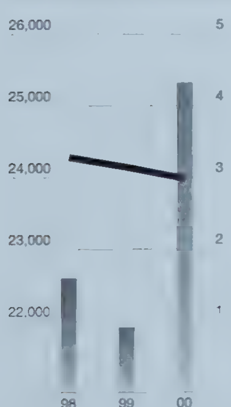
Freight Revenues

(in millions)	2000	%	1999	1998
Grain	**$ 755**	**22**	$ 688	$ 741
Coal, sulphur and fertilizers	**814**	**23**	811	902
Forest products	**366**	**10**	361	325
Industrial products	**438**	**13**	433	430
Intermodal	**782**	**23**	752	679
Automotive	**305**	**9**	279	238
Total freight revenues	**$ 3,460**	**100**	$ 3,324	$ 3,315

Revenue from grain shipments of $755 million in 2000 was up $67 million from $688 million in 1999 and $14 million from $741 million in 1998. Higher demand in export markets, as well as delayed 1999 shipments, boosted grain revenues in 2000. New high-throughput grain collection elevators on Canadian Pacific Railway's network contributed to improved customer service as well as lower costs in the grain handling and transportation systems.

Grain

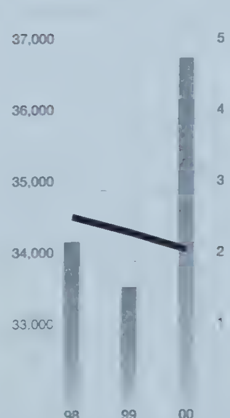
RTMs *(millions)*
Revenue per RTM *(cents/RTM)*



	98	99	00
RTMs	22,599	21,915	25,329
Revenue per RTM	3.28	3.14	2.98

Coal, Sulphur and Fertilizers

RTMs *(millions)*
Revenue per RTM *(cents/RTM)*



	98	99	00
RTMs	34,287	33,655	36,864
Revenue per RTM	2.63	2.41	2.21

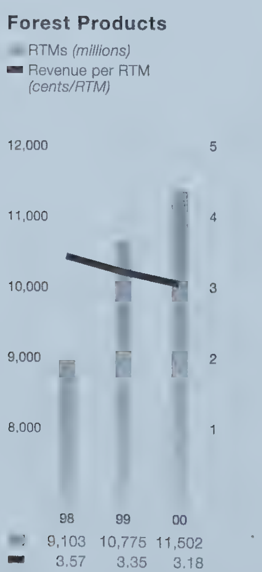
A recovery in grain shipment levels was partially offset by lower revenue per RTM, mainly reflecting rate reductions mandated by the Canadian Transportation Agency on regulated Canadian export grain. The Agency mandated rate reductions of a net 13.5% effective August 2000 and 1.2% effective August 1998 and allowed only a 0.4% rate increase effective August 1999. The net revenue decline is estimated to negatively affect the railway by approximately $65 million in the 2000-2001 crop year and is equivalent to an 18.0% reduction in the railway's regulated export grain revenues offset by a cost-based rate increase of 4.5%. To mitigate the lower legislated revenue and to provide special incentive rates to larger shippers, the railway is moving longer, heavier trains in more efficient block movements to reduce unit operating costs.

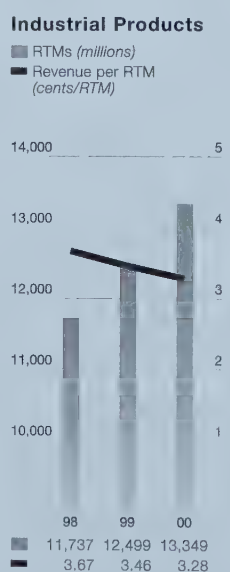
Revenues from shipments of coal, sulphur and fertilizers were $814 million in 2000, an improvement of $3 million from $811 million in 1999, but still down $88 million from $902 million in 1998. The revenue increase in 2000 was largely attributable to a recovery of demand for fertilizers. In 1999 and 2000, competitive pressures in metallurgical coal led to lower world market prices and the mines served by the railway negotiated lower coal traffic rates. Coal shipments in 2000 recovered from the weak levels of 1998 and 1999, and there is the prospect for higher shipments in 2001 as mines along the railway's system in southeastern British Columbia benefit from the closure of mines in other regions of Western Canada. Compared with both 1999 and 1998, sulphur revenues in 2000 were adversely affected by weakness in both domestic and export markets.

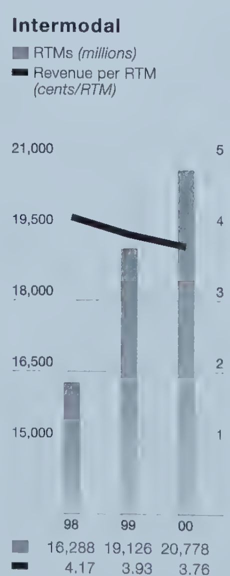
Forest products' revenue was $366 million in 2000, up slightly from $361 million in 1999 and better than $325 million in 1998. In 2000 and 1999, strong markets for pulp, newsprint and lumber allowed the railway to benefit from investments in reload centres and an ongoing railcar renewal program.

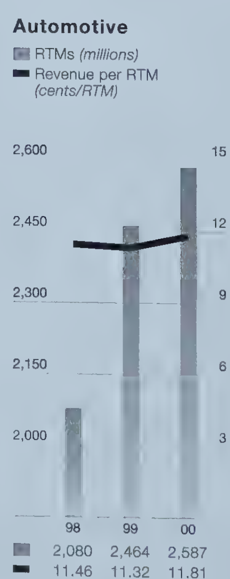
Revenue from industrial products increased to $438 million in 2000, up from approximately $430 million in both 1999 and 1998. In 2000 and 1999, there were annual increases in shipments of approximately 7%, due mainly to higher demand for steel products by the oil and gas industry and for aggregates used in construction. As well, in 2000, revenues reflected new business in aggregate products. In the fourth quarter of 2000, Canadian Pacific Railway opened a new rail line designed to serve the world-scale polyethylene plant operated by Union Carbide at Prentiss, Alberta.

The intermodal business contributed revenue of $782 million in 2000, up 4% from $752 million in 1999 and 15% from $679 million in 1998. The stronger results of 2000 and 1999 reflected a healthy economy and a strong partnership between the railway and its affiliated company, CP Ships, at the Port of Montreal. The railway also benefited from expansion projects at its intermodal terminals in Vancouver, Calgary, Chicago, Toronto and Montreal, completed in 1999.









Automotive revenues improved 9% to $305 million in 2000 following a 17% increase to $279 million in 1999. Automotive manufacturers experienced strong demand throughout 1999 and most of 2000. In 2000, Canadian Pacific Railway also benefited from additional traffic diverted to its lines due to congestion on other railroad lines in the U.S. Northeast, and exclusive access to key automotive plants in Canada.

Operating Expenses

Higher fuel prices drove up operating expenses by an estimated $110 million in 2000 versus 1999 and $48 million in 1999 versus 1998. However, operating expenses, excluding special items, increased only 3% to $2,810 million in 2000 following a 1% decline to $2,733 million in 1999. Expenses associated with increases in the workload, as measured by gross-ton-miles (GTMs), of 10% in 2000 and 5% in 1999 were offset by the benefits of cost-cutting initiatives.

In mid-1999, the railway implemented a new operating plan designed to extract additional savings from its revitalized asset base. The operating plan targets optimized train operations, superior equipment utilization and improved service levels. These improvements, together with other initiatives including expected supplier cost reductions, are anticipated to result in annual savings of some $300 million by 2001, compared to 1998 levels, after excluding the effects of higher volumes, changes in the product mix, fuel price increases and inflation. At year-end 2000, the railway estimated that it was ahead of schedule, having achieved about 85% of these savings.

Operating expenses per GTM decreased 6% to 1.33 cents in 2000 after a 6% decline to 1.42 cents in 1999. Cost reductions were the result of significant efforts in a number of areas. Average train weights were up 5% in both 2000 and 1999 due to the use of the new high performance, alternating current locomotives and the new operating plan. The new locomotives, together with reduced yard and terminal dwell times, also accounted for increases of 15% and 14% in GTM per available horsepower per day in 2000 and 1999, respectively. As well, increased labour productivity improved GTMs per employee by 17% in 2000 and 9% in 1999.

Operating Expenses

(in millions, excluding special items)		**2000**	**%**		1999		1998
Compensation and benefits	**$**	**1,148**	**41**	$	1,173	$	1,151
Material		**213**	**7**		199		235
Purchased services and other		**467**	**17**		520		546
Fuel		**410**	**15**		279		282
Rentals		**267**	**9**		270		258
Depreciation and amortization		**305**	**11**		292		279
Total	**$**	**2,810**	**100**	$	2,733	$	2,751

Compensation and benefits expenses were $1,148 million in 2000, down from $1,173 million in 1999 and $1,151 million in 1998. At year-end 2000, the railway's workforce included approximately 17,520 employees, down from 18,150 at year-end 1999 and 19,320 at year-end 1998. The new operating plan and revitalized asset base facilitated improved labour productivity that mitigated costs associated with higher workloads, inflationary rate increases and incentive payments. By year-end 2000, substantially all of the 1,900 positions targeted for reduction under the new operating plan had been eliminated.

Material and purchased service expenses were $680 million in 2000, down from $719 million in 1999 and $781 million in 1998. The lower costs in 2000 and 1999 were chiefly attributable to a decrease in maintenance requirements, arising from the recent modernization of the asset base, and a reworking of procurement systems in 1999 to ensure better cost control.

Fuel expenses were $410 million in 2000, up approximately 45% from $279 million in 1999 and $282 million in 1998. Fuel prices rose 57% in 2000 and 34% in 1999. Improved fuel efficiency partially offset higher fuel prices and increased consumption associated with higher workloads in each year. With the upgrade of the locomotive fleet to more fuel efficient units, which was essentially completed in 1999, fuel consumption per thousand GTM declined to 1.30 U.S. gallons in 2000 and 1.38 U.S. gallons in 1999, compared with 1.50 U.S. gallons in 1998.

Rental expense increased slightly to $267 million in 2000 and $270 million in 1999 from $258 million in 1998. The higher expenses in 2000 and 1999 were due principally to an increase in the hired car fleet required to service growth in traffic.

The investment in the franchise renewal led to higher depreciation expense and was the principal reason for the rise in depreciation expense to $305 million in 2000 and $292 million in 1999 from $279 million in 1998.

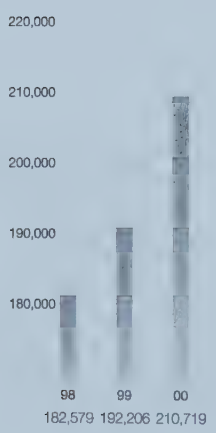
Capital Spending

Canadian Pacific Railway's capital expenditures decreased to $571 million in 2000 and $843 million in 1999 from $1,102 million in 1998. Capital spending started to decline in 1999 as the railway's franchise renewal was nearly complete. Net proceeds from sales of transportation properties were $58 million in 2000, $8 million in 1999 and $65 million in 1998 and provided partial funding of the expenditures as the railway continued to identify and realize value on surplus or underperforming assets.

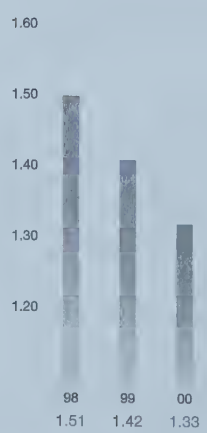
Most of the expenditures in 2000 were for maintenance on the network, with the balance directed to key business growth initiatives and service improvement projects. Capital expenditures did not include any investment in new locomotives in 2000, whereas spending on new locomotives amounted to $152 million for 37 units in 1999 and $335 million for 120 units in 1998. At year-end 2000, the railway announced the intended acquisition of 51 new locomotives, which is expected to bring the high performance fleet to 381 units by year-end 2001.

Canadian Pacific Railway is also looking beyond the traditional methods of generating revenue growth and investing in new value-creating opportunities. During the period, Canadian Pacific Railway brought into full service a new short-haul intermodal freight system, Expressway, that offers a drive on/off trailer-on-train service to better compete in shorter-haul markets. New railway equipment, combined with the construction of three new terminals, allowed for the introduction of service between Montreal and Toronto in 1999 and its extension to Detroit in 2000. Future development possibilities include service to Chicago as well as the northeastern U.S.

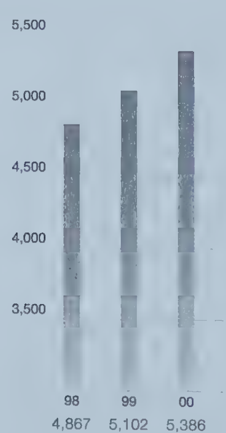
Freight Gross-Ton-Miles
(millions)



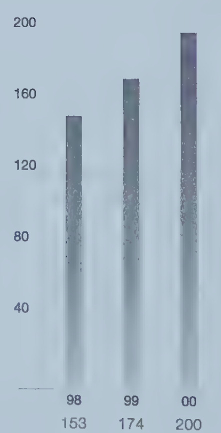
Operating Expenses per Gross-Ton-Mile
(cents, excluding special items)



Average Train Weights
(tons)



Gross-Ton-Miles per Available Horsepower per Day



In October 2000, the railway established Tronicus, a stand-alone transportation logistics company, which will offer third parties advice and management expertise on a broad range of supply chain issues. There are many opportunities, especially in the area of e-commerce, where Tronicus believes it can leverage the railway's information technology infrastructure and expertise to expand into related businesses. Canadian Pacific Railway is also a partner in a number of e-commerce initiatives, including Arzoon and Steelroads which employ the Internet to provide easier access to freight transportation services. The railway, along with a number of other Class I railroads, is in the initial phase of developing an Internet-based marketplace for freight transportation. The creation of RailMarketplace.com, an open electronic exchange linking buyers and sellers with goods and services across North America, will provide an opportunity for the entire rail industry to become more effective and efficient to the benefit of its customers.

Capital expenditures in 2001 are expected to increase to around $685 million as the railway continues to modernize its fleet.

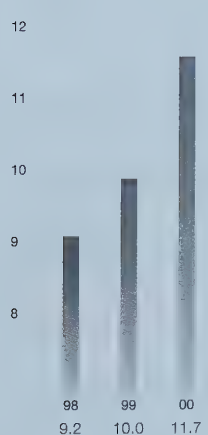
Locomotives – Road and Yard Units

	2000		1999		1998	
Age in Years	**Number**	**%**	Number	%	Number	%
0 – 5	**330**	**21**	330	21	293	18
6 – 10	**–**	**–**	21	1	81	5
11 – 15	**182**	**12**	197	12	199	12
16 – 20	**170**	**11**	197	12	211	13
Over 20	**883**	**56**	842	54	857	52
	1,565	**100**	1,587	100	1,641	100

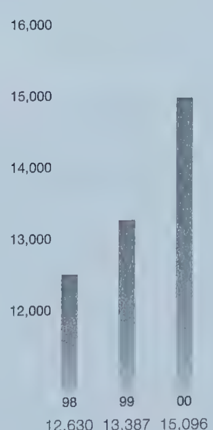
Outlook

Canadian Pacific Railway's industrial products, intermodal and automotive businesses could be negatively affected by slower growth in industrial production, manufacturing and consumer spending in North America. However, it is anticipated that the grain and coal businesses would be more resilient as they would continue to benefit from a recovery in world markets, particularly in Asian countries. As well, the revitalized asset base and new operating plan, combined with enhanced information technology systems, are expected to yield new opportunities to increase service levels, support profitable revenue growth and reduce operating expenses.

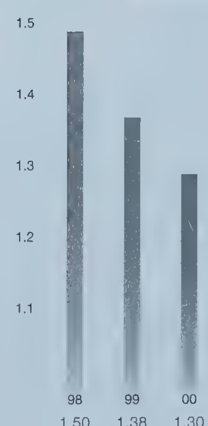
Gross-Ton-Miles per Average Number of Active Employees
(millions)



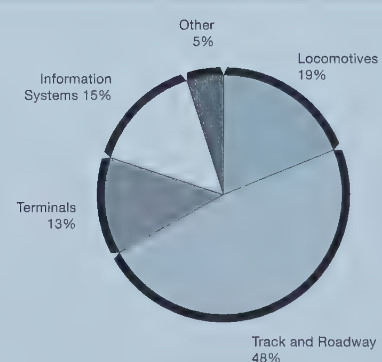
Gross-Ton-Miles per Mile of Road Operated
(thousands)



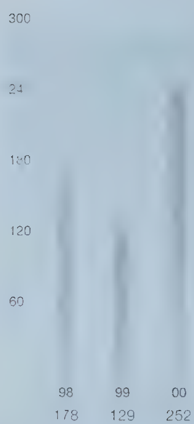
Fuel Efficiency
(U.S. gallons per 1,000 GTM)



1998–2000 Capital Investment



Operating Income
($ millions)



Cash Flow
($ millions)

CP Ships' Routes

CP Ships [illegible] benefited fr[illegible] the past four [illegible] its acquisiti[illegible] among th[illegible] it [illegible] Lykes Lines and TMM [illegible] service and [illegible] Australasia and Latin Am[illegible] units (teu), [illegible]

Operating Income and Cash Flow

CP Ships' operating income reached a record $252 million in 2000, nearly double the $129 million earned in 1999 and 42% more than its previous record of $178 million set in 1998. The profit recovery in 2000 was broadly based and all lines and nearly all trade lanes earned satisfactory returns.

A number of factors contributed to the improvement in 2000. CP Ships' average freight rate per teu on a comparable basis increased by 7% following a 14% decline in 1999. At Americana Ships, which comprises Lykes Lines and TMM Lines, there was a major turnaround from heavy operating losses to solid profits, which was compounded by 100% ownership effective early in 2000 compared with only 50% in 1999. As well, the North Atlantic market improved with strong westbound volume growth and higher freight rates. This increased profits for the Montreal Gateway lines, Canada Maritime and Cast, and the European trades of Americana. Together, the Australasian-oriented lines, Contship and ANZDL reported another sound profit contribution, although largely unchanged from 1999.

In 1999, competition on the North Atlantic increased and this depressed freight rates and earnings for that year. As well, there were start-up losses at Americana. These effects were partially offset by expanded operations, continued cost savings, and a full year contribution from ANZDL, acquired late in 1998.

Underlying the improved performance in 2000 was a relatively balanced position for world containership capacity supply and demand, with strong Asian trades growth absorbing significantly increased capacity.

Furthermore, the continuing effect of CP Ships' long term cost reduction programs reduced average cost per teu by 1% in 2000 compared with 1999, despite a 60% increase in fuel price and a one-third increase in average rates in the containership charter market on which CP Ships currently relies for most of its capacity. This followed a 5% reduction in cost per teu from 1998 to 1999. Significant reorganization of all services and the fleet of ships over the last two years has improved service, increased capacity and reduced the unit cost.

Cash flow also recovered to surpass earlier levels. Cash flow was $320 million in 2000, up significantly from $178 million in 1999 and $218 million in 1998. ROCE was 21.1% in 2000, compared with 13.2% in 1999 and 24.0% in 1998.

CP Ships

(in millions)		**2000**		1999		1998
Revenues	**$**	**3,919**	$	2,799	$	2,647
Expenses		**3,667**		2,670		2,469
Operating income	**$**	**252**	$	129	$	178

North Atlantic Trades

CP Ships is the largest carrier on the North Atlantic, with 11 separate direct weekly services between North America, from Montreal to Mexico, and Europe, from Hamburg to Italy, under five different brands. This trade region represents more than half of CP Ships' total carryings.

The North Atlantic trades experienced a strong improvement in profitability in 2000. In 1999, excess capacity and deregulation led to a decline in freight rates of 14%. In 2000, carryings increased by 6% over 1999 and freight rates including fuel surcharges rose by 9%. European exports grew strongly driven by the booming U.S. economy, growth in Mexico and the weak Euro. Westbound capacity utilization was high and freight rates improved. The eastbound volume was flat and freight rates declined.

During the year, Canada Maritime and Americana added capacity to their Mediterranean Services. Americana, in the fourth quarter, started a new co-operation with the Grand Alliance (of four global carriers) to integrate their respective North America-Northern Europe services into five separate weekly loops to improve transit times and port coverage and to reduce ship system costs.

The Montreal Gateway business, including Canada Maritime and Cast, benefited from the exit during 1999 of two competitors. Capacity additions in the North Atlantic overall during 2000 were modest, but increased late in 2000 and early in 2001.

In December, CP Ships signed a letter of intent to assume the commercial management of FastShip. FastShip will provide a revolutionary, high-speed, U.S.-owned and designed, TransAtlantic four-ship system for high-value and time-sensitive cargo in competition with airfreight. The service is expected to start with special purpose-built ships in 2004 and CP Ships expects to hold a small equity stake.

Australasian Trades

Contship and ANZDL have five separate services between Australasia and Europe and the U.S.

Overall volume was up by 5% in 2000 and the average freight rate was flat. However, the latter disguised a steady fall in southbound freight rates from the U.S. West Coast to Australasia due to excess trade lane capacity. In December, ANZDL filed with the U.S. Federal Maritime Commission a joint service agreement with three other carriers to rationalize capacity and improve service on this trade lane, starting in March 2001.

Contship has agreed to plans with four partners to redesign their Australasian services by combining five separate ship systems currently employing 33 ships into two contra-rotating, round-the-world, weekly ship systems employing 22 ships starting late in 2002. The new service will improve frequency and transit times, increase refrigerated container capacity and lower costs.

In 1999, freight rates were adversely affected by excess capacity in the Asia import trades being used for relay to Australasia, though retonnaging and rescheduling of three of the services significantly reduced ship system costs and carryings remained strong.

Latin American Trades

Stability in the South American economies and growth in Mexico, along with rationalization of capacity in many trade lanes, provided a positive background. In both the U.S. and European trades to the East Coast of South America, volume was essentially unchanged, but costs were down and freight rates improved in both directions.

Following a loss from these routes in 1998, CP Ships restructured all of its various routes to improve service and lower costs, factors which brought about a breakeven position by year-end 1999. Progress continued into 2000 when satisfactory profits were earned.

Asian Trades

During the year, Americana's Asia-U.S. West Coast and Mexico service was reorganized with bigger ships and a second loop was added and integrated with the U.S. West Coast-West Coast South America service. Volume, particularly Asian exports, increased substantially and, with better average revenue, profitability improved.

In December, an agreement was reached to purchase slots on another carrier's Asia-Europe services to provide a substantial new business opportunity.

Other Trades

Results of Contship's Europe-India Pakistan service improved. During the year, two new services from the U.S. and from Southeast Asia to India were started.

In August, Christensen Canadian African Line (CCAL), which employs three chartered ships in the Montreal-South Africa trade, was acquired. It has been integrated with Lykes' U.S.-South Africa service into two loops, improving the line's profitability.

Revenues and Operating Expenses

CP Ships' revenues rose 40% to $3,919 million in 2000 from $2,799 million in 1999, due to a 34% increase in carryings, to 1.83 million teu from 1.37 million teu, and higher freight rates. The increase in volume reflected underlying business growth of 7% as well as full ownership of Americana.

Revenues in 1999 represented a 6% improvement over $2,647 million in 1998. Increased revenues at Americana and a full year contribution from ANZDL, acquired late in 1998, were partially offset by a significant decrease in the average freight rate. Carryings in 1999 were up 18% from 1.16 million teu in 1998.

Operating expenses increased to $3,667 million in 2000 from $2,670 million in 1999 and $2,469 million in 1998, mainly due to acquisitions and growth in the existing businesses. In 2000, unit costs fell by 1%, or 4% excluding the effect of fuel price increases, following a 5% reduction in 1999.

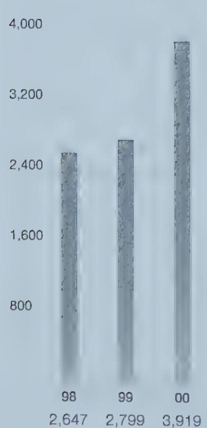
Exchange rates were broadly beneficial with most revenue of the trades denominated in U.S. dollars and a large proportion of their expenses in weaker currencies. The Australasian trades were an exception with much of their revenue denominated in local currencies that depreciated in 2000.

Capital Spending

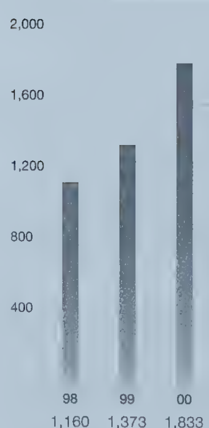
Spending on additions to properties increased to $366 million in 2000, after averaging approximately $130 million in each of the prior two years. In 2000, there were higher expenditures for ships, information systems and new containers. Most of these containers, and a number of other containers, became part of a $96 million sale and leaseback transaction.

During 2000, CP Ships embarked on a three-year $1.5 billion ship investment program to replace more than 40 chartered ships with owned ships, both new and used, and longer-term charter commitments. The program, which also includes further investments in containers, is planned to reduce ship system costs, improve operating efficiency and expand capacity. It is also expected to reduce exposure to the short-term charter market. A significant portion of these expenditures is expected to be financed by cash from operations or off balance sheet through sale and leaseback agreements.

Revenues
($ millions)



Container Carryings
(thousand teu)



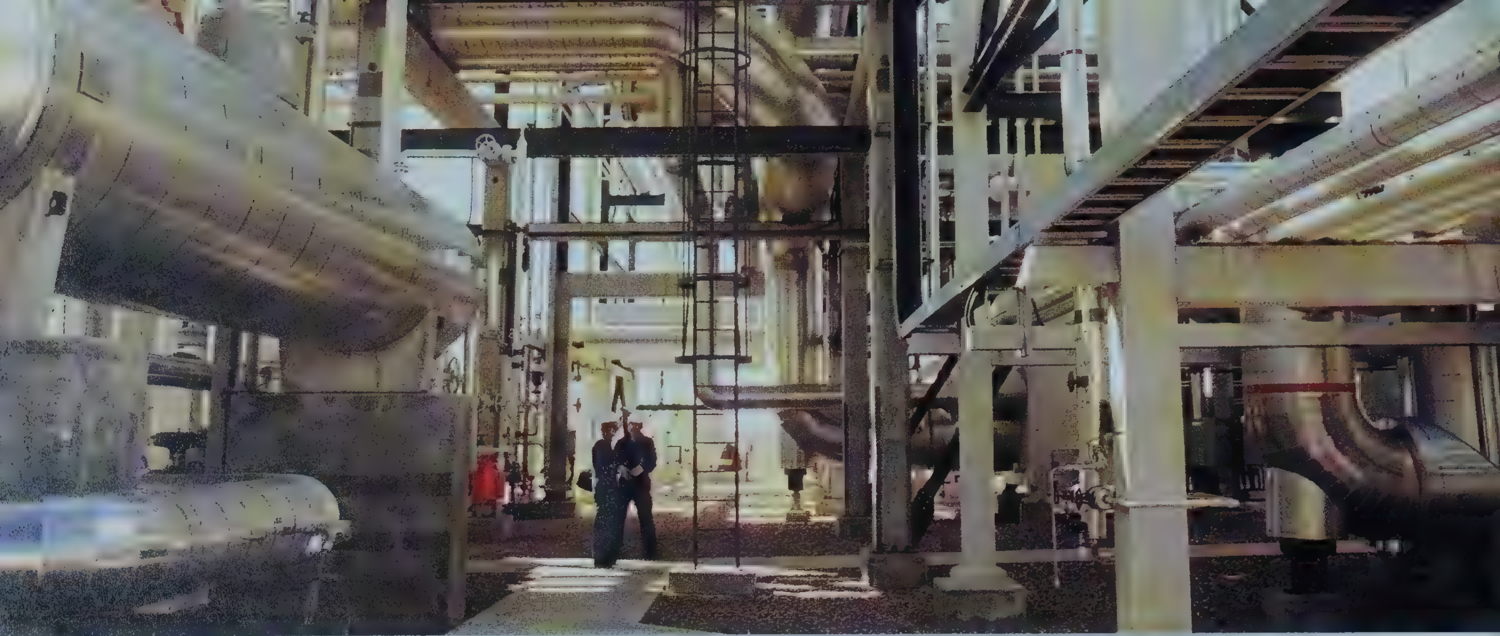
A major information technology investment project to replace all CP Ships' operational and financial information systems was started in 1999 and gathered momentum during 2000. The first delivery of applications is expected in 2001 and the project is planned to be completed by 2002. In December 2000, a letter of intent was signed to make a small investment in an industry portal that will leverage the use of the Internet by facilitating transactions between the various parties involved in international trade.

Investment spending in 2000 included $106 million to acquire CP Ships' partner's 50% interest in Americana and 100% of CCAL as well as other smaller investments. Investment spending was only $4 million in 1999.

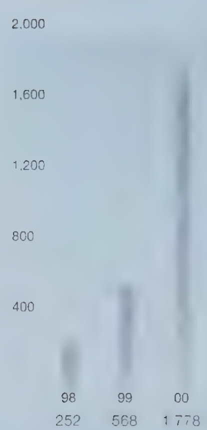
Outlook

While reasonable economic growth in Europe and elsewhere in the world is forecast, slower economic growth in the U.S. and significant deliveries of new ships in 2001 are expected to negatively impact the industry. However, CP Ships expects that its strong market position, good service and low-cost structure will continue to drive profits on the important North Atlantic trades. In all other trades, CP Ships expects to capitalize on its reorganization of services over the last two years and investment in owned ships to improve profits, so long as markets continue to hold up.

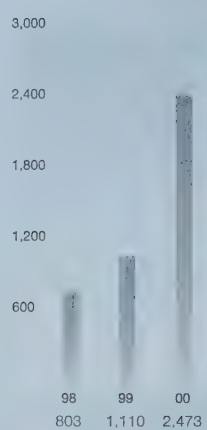
CP Ships also anticipates further expanding its presence as a global containership player with a regional niche focus. It expects to build market share through further service improvements and the addition of new routes. In addition, management plans to continue to undertake selective strategic alliances and acquisitions as opportunities arise.



Operating Income
($ millions)



Cash Flow
($ millions)



PanCanadian's Western Basin

PanCanadian Petroleum [illegible]

In 2000, PanCanadian produced 282,100 boe per day, of which 56% was natural gas. Growth in natural gas production averaged 10% per year in the last two years as PanCanadian capitalized on its land position in Western Canada, much of which is gas prone and includes low-risk, shallow reservoirs situated on fee land with reduced royalty costs. These lands generally enjoy economic natural gas finding and development costs, are close to PanCanadian's existing infrastructure and have access to low-cost pipeline transportation.

Exploring and developing its landholdings in the Western Basin provided most of the production growth, but PanCanadian added production from, and sought opportunities in, other basins. During the year, PanCanadian announced the results of appraisal wells at its 100%-owned Deep Panuke natural gas discovery offshore Nova Scotia. In PanCanadian's estimation, results to date indicate that the field has the potential to be the most significant discovery in Atlantic Canada in more than a decade and a major new exploration and development basin. The discovery's location positions it to capitalize on the strong demand for natural gas in the northeastern U.S. As one of the largest landholders offshore Nova Scotia, PanCanadian holds more than four million gross acres (2.5 million net) of exploration lands, operates 14 of its 15 exploration licenses, and has an average working interest of 55%.

In the first quarter of 2000, PanCanadian paid $259 million to acquire interests in the Scott/Telford producing oil fields and surrounding exploration lands located in the U.K. sector of the North Sea. The purchase added 12,700 barrels of light crude oil and natural gas liquids (NGL), and nine million cubic feet (mmcf) of natural gas to PanCanadian's daily production in 2000. The fields are located in the immediate vicinity of other lands in which it owns an interest and has identified exploration prospects. Since the acquisition, PanCanadian initiated a joint re-evaluation of reserves that added 7.5 million boe to proved reserves. Ongoing technical work is expected to lead to further reserve additions in 2001.

In the last quarter of 2000, PanCanadian purchased the exploration, production, midstream and gas marketing operations of Montana Power for $689 million. Natural gas production from these assets at the time of acquisition was approximately 94 mmcf per day and increased PanCanadian's natural gas leverage to 56%. Acquired upstream and midstream assets produced 3,800 barrels per day of crude oil and NGL. The acquisition also provided 1.2 million net acres of land, half of which are undeveloped, and added 112 million boe of proved and one-half probable reserves at a cost of $4.64 per boe. PanCanadian plans to use its operating expertise in shallow and medium-depth natural gas operations to raise production from these U.S. properties that together with the western Canadian properties form its activities in the Western Basin. Marketing and midstream assets include three cross-border pipelines that will provide PanCanadian's natural gas in southern Alberta and Saskatchewan direct access to attractive U.S. markets.

Operating Income and Cash Flow

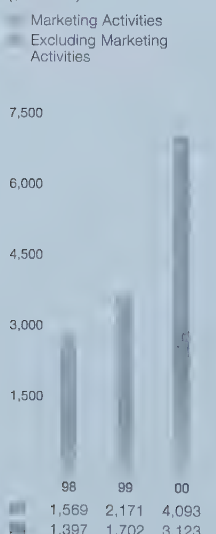
PanCanadian's operating income of $1,778 million and cash flow of $2,473 million in 2000 represented increases of 213% and 123%, respectively, over the prior year. This exceptional performance followed operating income and cash flow improvements of 125% and 38%, respectively, in 1999 versus 1998. ROCE of 27.0% in 2000 also compared favourably with 10.1% in 1999 and 4.8% in 1998.

The contribution to operating income from crude oil activities benefited from stronger realized prices before hedging activities, $34.98 per barrel in 2000, up 55% from 1999 and 151% from 1998. Results from natural gas operations were also substantially improved by a combination of higher prices and increased production. The 2000 realized price, before hedging activities, of $4.87 per thousand cubic feet (mcf) was up 83% from 1999 and up 129% from 1998. Production averaged 949 mmcf per day in 2000, up 12% from 848 mmcf in 1999 and 19% from 796 mmcf in 1998.

PanCanadian Petroleum

(in millions)	**2000**	1999	1998
Revenues	**$ 7,216**	$ 3,873	$ 2,966
Expenses	**5,438**	3,305	2,714
Operating income	**$ 1,778**	$ 568	$ 252

Revenues
($ millions)



Revenues

Revenues, net of royalties and similar payments, amounted to $7,216 million in 2000, $3,873 million in 1999 and $2,966 million in 1998 and are mainly derived from upstream production, marketing and midstream activities.

Upstream production revenues, before royalties and similar payments, totalled $3,067 million in 2000. This represented increases of $1,423 million, or 87%, from 1999 and $1,716 million, or 127%, from 1998 that chiefly stemmed from the stronger natural gas and crude oil prices and increased natural gas production in each year. Higher energy prices and increased production caused royalties and similar payments to rise by $121 million to $259 million, following an increase of $38 million to $138 million in 1999.

Marketing activities include the marketing of proprietary and third-party natural gas, crude oil, NGL and electricity. Revenues of $4,093 million in 2000 exceeded 1999 by 89% and 1998 by 161%. Higher commodity prices and expanded third-party marketing activity by PanCanadian Energy Services, PanCanadian's natural gas and electricity marketing arm, were significant factors underlying the growth in revenues. PanCanadian Energy Services marketed an average of 2.4 billion cubic feet (bcf) of natural gas per day in Canada and the United States compared with 2.2 bcf per day in 1999 and 1.8 bcf per day in 1998. PanCanadian's third-party marketed natural gas volumes grew to 66% of total marketed volumes in 2000, compared with 66% in 1999 and 61% in 1998. Marketing revenue and purchased product costs include only sales and purchases related to third-party volumes. Sales related to company-produced volumes, including the margin earned by the marketing and midstream division attributable to such volumes, are included in upstream revenues for natural gas, crude oil and field NGL.

Midstream activities include NGL extraction and storage, electricity generation and product pipeline ownership. Midstream revenues grew to $294 million in 2000, 62% ahead of $182 million in 1999 and 124% above $131 million in 1998. NGL volumes were up substantially in 2000 and 1999 because of the expansion in 1998 of the Empress, Alberta NGL plants, in which PanCanadian has an interest, and the installation in 1999 of an ethane extraction facility. Effective January 1999, processing arrangements for the production of ethane at Empress expired and were replaced by contracts that resulted in a dramatic increase in reported sales volumes of ethane.

Revenues

		Changes			Changes		
(in millions)	**2000**	Volume*	Price	1999	Volume*	Price	1998
Crude oil	**$ 1,303**	60	440	$ 803	(142)	239	$ 706
Natural gas	**1,590**	91	734	765	34	148	583
Natural gas liquids	**174**	13	85	76	(1)	15	62
	3,067	164	1,259	1,644	(109)	402	1,351
Empress	**261**			144			87
Other midstream activities	**33**			38			44
Other revenues	**21**			14			15
Royalties	**(259)**			(138)			(100)
	3,123			1,702			1,397
Marketing	**4,093**			2,171			1,569
Total revenues	**$ 7,216**			$ 3,873			$ 2,966

* Volume figures represent revenue variances resulting from production.

Weighted Average Prices Received

(excluding hedging)		**2000**		1999		1998
Crude oil *(per barrel)*	**$**	**34.98**	$	22.57	$	13.91
Natural gas liquids *(per barrel)*	**$**	**32.93**	$	16.89	$	13.61
Natural gas *(per thousand cubic feet)*	**$**	**4.87**	$	2.66	$	2.13

Crude Oil Revenues

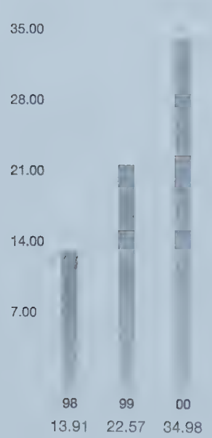
Before royalties and similar payments, revenues from crude oil were $1,303 million in 2000, up $500 million from $803 million in 1999 and up $597 million from $706 million in 1998. Over the two years, crude oil revenues increased significantly due chiefly to better prices. Commodity and currency hedging related to crude oil produced a hedging loss of $100 million in 2000, compared with a loss of $40 million in 1999 and a gain of $56 million in 1998. Commodity hedging resulted in losses of $69 million in 2000 and $1 million in 1999 versus a gain of $84 million in 1998, while currency hedging resulted in losses of $31 million in 2000, $39 million in 1999 and $28 million in 1998.

For 2001, PanCanadian has sold forward 45,000 barrels per day of its Western Basin crude oil production at an average WTI price of U.S.$28.06 per barrel and 8,000 barrels per day of its U.K. production at an average Dated Brent price of U.S.$24.97 per barrel.

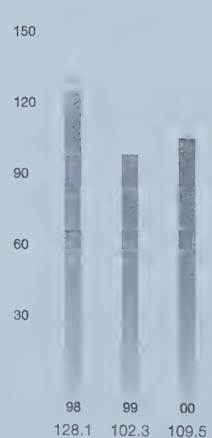
Crude oil prices reached a 10-year high in 2000 after a slide that began in 1997 and resulted in historical lows early in 1999. WTI prices remained strong throughout 2000 primarily because of strong product prices and low levels of crude and product inventories. Early in the year, OPEC kept production low in order to reduce inventories. As prices increased above the U.S.$30 per barrel level, OPEC increased its production on four occasions in an attempt to meet demand. The WTI benchmark crude oil price averaged U.S.$30.26 per barrel in 2000 and traded between U.S.$23.90 and U.S.$37.21. In 1999, WTI averaged U.S.$19.30 and ranged from U.S.$11.37 early in the year to U.S.$27.92 late in the year. In 1998, the benchmark averaged U.S.$14.40 with a deterioration in prices over the year.

Crude oil prices are volatile and are subject to many economic and political pressures. However, current expectations are for somewhat lower crude oil prices in 2001 as demand growth is expected to slow and OPEC's production increases during 2000 have mitigated supply concerns.

Crude Oil Price
(excluding hedging, $ per barrel)



Crude Oil Production
(thousand barrels per day)



PanCanadian's production includes a portion of heavier crude oil, which requires more processing than light/medium oil and thus receives a lower price. The average differential between the price of heavy versus light/medium crude oil widened in 2000 after remaining in a relatively narrow range in the 1998–1999 period. The average differential, measured by the Bow River heavy oil price per barrel, was U.S.$7.12 in 2000, up from U.S.$3.49 in 1999 and U.S.$4.60 in 1998, mainly because of a significant widening in the fourth quarter of 2000.

The differential is influenced by the relationship between heavy oil supply and available processing capacity, widening when supply exceeds processing capacity. Canadian heavy oil differentials are expected to remain wide compared to historical averages due to relatively high WTI prices and increased global heavy oil production. (For the purposes of its operations, PanCanadian defines heavy oil as crude oil with a gravity of less than 18° API that typically has associated sand production and requires diluent for transportation.)

PanCanadian's average realized price per barrel of crude oil, excluding hedging, was up 55% to $34.98 in 2000 following an increase of 62% to $22.57 in 1999.

Daily crude oil production increased to an average of 109,500 barrels in 2000 following a decline to 102,300 barrels in 1999 from 128,100 barrels in 1998. Crude oil production in 2000 included approximately 11,800 barrels per day added with the purchase, early in 2000, of interests in the Scott/Telford operations. In the two years leading up to 2000, crude oil prices traded in a range that included very weak prices. PanCanadian responded to these low prices by carefully managing development projects. This response, together with the cessation in late 1999 of East Coast production at the Copan project which produced 3,200 barrels per day in 1999, and the sale of non-core assets, contributed to the decline in crude oil production, excluding the effect of the acquisition of the Scott/Telford operations. In 2000, PanCanadian sold an 11.7% net royalty interest in its Weyburn unit for $78 million and disposed of a 7% working interest in this unit for $48 million. PanCanadian retained a 62% working interest in the unit, but the result of these dispositions effectively reduced its economic interest to approximately 50%. PanCanadian remains the operator of the Weyburn unit, where a carbon dioxide miscible flood project commenced in September 2000.

On May 1, 1999, PanCanadian and Gulf Canada Resources Limited combined portions of their heavy oil assets under the Petrovera Resources (Petrovera) partnership in order to achieve operating and cost synergies for both companies. PanCanadian contributed lands near Lloydminster, Alberta, which produced 17,000 barrels per day of conventional heavy oil and received an approximate 53% interest in Petrovera. Petrovera's daily production averaged 33,900 barrels in 2000 and 30,600 barrels in the eight months of 1999.

PanCanadian also produced heavy oil from its Senlac and Pelican Lake operations. Its heavy oil production from these operations and its share of Petrovera totalled 25,000 barrels per day in 2000, 23,400 barrels per day in 1999 and 27,100 barrels per day in 1998. Early in February 2001, PanCanadian agreed to dispose of its Pelican Lake property situated in northern Alberta, which produces an average of 5,000 barrels of heavy oil per day and 4.7 mmcf of natural gas per day. This action was taken because the property is remote from most of PanCanadian's operations and is not considered a core asset. The transaction is expected to close later this year.

PanCanadian anticipates a slight decline in its overall crude oil production in 2001 as a result of the dispositions discussed above, however it will continue to look to build profitable volume growth. To that end, PanCanadian has major crude oil projects underway to increase production from its Weyburn unit and to bring on-stream significant amounts of heavy oil production from Christina Lake. At the Weyburn unit, PanCanadian is using carbon dioxide flooding technology to extract additional volumes from the reservoir. Injection of carbon dioxide into the Weyburn unit reservoir began in September 2000, with plans for incremental production beginning late in 2001 and reaching up to 30,000 gross barrels per day by 2003. PanCanadian's heavy oil project for steam-assisted gravity drainage at Christina Lake reached a significant milestone in August 2000 when it received an Alberta Environment permit under the Environmental Protection and Enhancement Act. Steam injection for the first phase of this project is expected late in 2001, with production beginning in 2002. Oil volumes are expected to rise to 10,000 barrels per day by 2004.

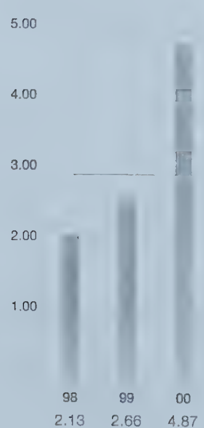
Natural Gas Revenues

Revenues from natural gas, before royalties and similar payments, were $1,590 million in 2000, up from $765 million in 1999 and $583 million in 1998 due to significantly higher prices and increased production. Hedging in the commodity and foreign exchange markets resulted in a hedging loss of $43 million in 2000, compared to losses of $32 million in 1999 and $21 million in 1998. Of these losses, commodity market hedging produced a loss of $4 million in 2000 in contrast with gains of $7 million in 1999 and $2 million in 1998. Currency hedging in the foreign exchange market accounted for the remaining hedging effect, generating losses of $39 million in 2000, $39 million in 1999 and $23 million in 1998.

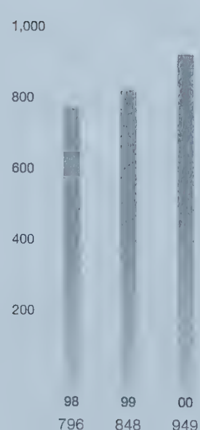
At December 31, 2000, PanCanadian had sold forward natural gas production of 450 mmcf per day over the period January through October 2001 at an average netback Alberta price (AECO) equivalent to $8.57 per mcf.

To capture the benefits of the strong natural gas prices during the last two years, PanCanadian accelerated its drilling program to exploit its extensive shallow and deeper gas reserves. Records for production were set in each year, averaging 949 mmcf per day in 2000, 12% ahead of 1999 and 19% better than in 1998. PanCanadian intends to further boost production by 15% in 2001.

Natural Gas Price
(excluding hedging, $ per thousand cubic feet)



Natural Gas Production
(million cubic feet per day)



Throughout 2000 and most of 1999, natural gas market prices were supported by growing demand, lagging supply and low storage levels. As a result of increases in export pipeline capacity in late 1998, AECO strengthened in relation to New York Mercantile Exchange (NYMEX) and other U.S. gas prices. The average AECO price increased to $5.24 per mcf in 2000 from $3.09 in 1999 and $2.13 in 1998. While North American market fundamentals currently support an elevated range for natural gas prices, the gap between growth in supply versus growth in demand is expected to narrow in the future. Prices are expected to moderate from current levels.

PanCanadian's realized natural gas prices reflect a blend of the AECO and U.S. price indices. Its realized price, excluding hedging, for natural gas of $4.87 per mcf in 2000 was ahead 83% over 1999 and 129% over 1998. PanCanadian realized gas transmission savings of $24 million in 2000, $23 million in 1999 and $20 million in 1998 from load retention service rates (LRS) that became effective in 1998 on the NOVA pipeline system. The Alberta Energy and Utilities Board approved a distance-based tolling system for the transportation of gas on the NOVA system, effective April 1, 2000, which further reduced PanCanadian's gas transportation costs in southern Alberta for those volumes not subject to LRS.

Field Natural Gas Liquids

The revenue contribution from field NGL was $174 million in 2000, compared with $76 million in 1999 and $62 million in 1998. Average daily production of NGL was 14,400 barrels in 2000, up from 12,300 barrels in 1999 and 12,500 barrels in 1998, while average realized prices per barrel increased in each year to $32.93 in 2000 from $16.89 in 1999 and $13.61 in 1998. The price trend reflected the general strengthening of crude oil prices over the period.

NGL volumes are extracted from natural gas production. Therefore, NGL production volumes vary with natural gas production, and reflect the composition of the natural gas and the efficiency of the recovery process that separates the NGL from the output of the natural gas wells.

East Coast Activities

PanCanadian is committed to a long-term presence in Atlantic Canada, where offshore Nova Scotia natural gas plays are emerging as an important source to offset declining supplies in other North American basins. PanCanadian is a leading interest holder on the Scotian Shelf and deeper waters off the edge of the Shelf, where PanCanadian operates 14 of its 15 exploration licences comprising gross acreage of over four million acres, or 2.5 million net acres.

In the fourth quarter of 2000, PanCanadian announced the results of its third appraisal well drilled on the Deep Panuke natural gas discovery offshore Nova Scotia. As with the discovery well and the first two appraisal wells, results were encouraging with the third appraisal well testing at over 63 mmcf per day and the rate was limited by the testing equipment. Further analysis of the test results will be conducted to determine the full extent of the field and PanCanadian expects to make a decision on the commercial viability of a stand-alone development of this field by the end of the first quarter of 2001.

In December 1999, the Copan project offshore Nova Scotia reached the end of its economic life. During 1999, PanCanadian's 50% share of this project produced revenue of $33 million, which provided an operating margin of $8 million. PanCanadian's share of production during 1999 averaged 3,200 barrels per day of light oil, compared to 8,200 barrels per day during 1998. The Copan wells were decommissioned in 2000, although parts of the infrastructure were preserved to support exploration.

Other North American and International Ventures

PanCanadian has a 20% working interest in the Llano discovery in the Gulf of Mexico. In 2000, a second appraisal well into the Llano discovery in the deep water Gulf of Mexico encountered more hydrocarbon bearing sands than the discovery well. The results of this well are being evaluated to determine reserve size, commercial potential of the prospect and possible development scenarios. PanCanadian was successful, in August 2000, in its bid for offshore exploration blocks in the Gulf of Mexico and has a 100% interest in 15 blocks. PanCanadian's land position in the Gulf of Mexico has grown to approximately 55 blocks covering approximately 309,000 gross acres.

International exploration plays are being undertaken at a balanced pace to effectively manage risk. PanCanadian is focusing its international efforts in the U.K. sector of the North Sea, Australia, Brazil and North Africa. PanCanadian decided to withdraw from South Africa and the Ivory Coast in 2000 and from Venezuela in 1999.

Investments in other North American and international exploration totalled $123 million in 2000, compared with $98 million in 1999 and $146 million in 1998. These expenditures accounted for approximately 8% of PanCanadian's total capital expenditures in 2000, compared with 12% in 1999 and 16% in 1998.

Marketing and Midstream Operations

The value of PanCanadian's assets is enhanced by its marketing and midstream endeavours.

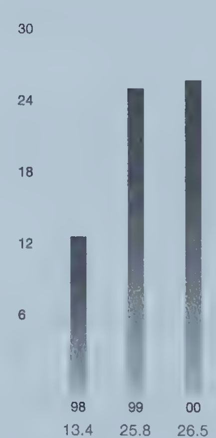
Marketing revenues related to third-party products increased to $4,093 million in 2000 from $2,171 million in 1999 and $1,569 million in 1998, primarily due to increases in natural gas prices and third-party volumes. Similarly, purchased product expenses were up to $4,002 million in 2000 from $2,136 million in 1999 and $1,535 million in 1998. Intense competition held gross marketing margins to approximately 2% in each year.

In addition to the marketing of natural gas volumes noted earlier, the crude oil marketing division of PanCanadian marketed an average daily crude oil volume of 172,000 barrels in 2000, compared with 160,000 barrels in 1999 and 200,000 barrels in 1998. Third-party volumes, including those sourced from the Alberta government and Canadian Oil Sands Investments Inc., were 64,000 barrels per day in 2000, 51,000 barrels per day in 1999 and 80,000 barrels per day in 1998.

Electricity, acquired solely from third parties and then sold by PanCanadian Energy Services, totalled 434,000 megawatt hours in 2000, compared with 267,000 megawatt hours in 1999 and 784,000 megawatt hours in 1998.

PanCanadian's Offshore North America and International Interests

Empress Liquids Production
(thousand barrels per day)



PanCanadian also supplies certain company operations with natural gas as feedstock. During 2000, a total of 32 mmcf per day was supplied to the Empress NGL extraction operations and a 110-megawatt, cogeneration facility near Kingston, Ontario, in which PanCanadian holds a 25% interest. This was up from 27 mmcf per day in 1999 and 20 mmcf per day in 1998.

PanCanadian's field and Empress NGL, as well as third-party NGL, are marketed through Kinetic Resources, a company in which PanCanadian owns a 75% interest. Kinetic Resources marketed a total of 76,000 barrels per day of NGL in 2000, compared with 56,000 barrels per day in 1999 and 66,300 barrels per day in 1998. The decrease in sales volume in 1999 was the result of a fire in January 1999 at a third-party operated gas plant. After repairs, production at the plant resumed late in January 2000.

Midstream operations include interests in four NGL extraction plants at Empress, Alberta, a straddle plant at Fort Lupton, Colorado, as well as a cogeneration plant in Ontario, an NGL storage facility, a fractionation plant, an NGL pipeline and various crude oil pipelines in Western Canada.

At Empress, PanCanadian's combined share of processing capacity is 1.7 bcf per day. Revenues from PanCanadian's interests in the Empress plants were $261 million in 2000, up from $144 million in 1999 and $87 million in 1998. Empress revenues increased in the period because prices and volumes of NGL were higher. The average daily production of NGL at the Empress plants was 26,500 barrels in 2000 and 25,800 barrels in 1999, nearly double the 1998 volume of 13,400 barrels per day. The average price for Empress products was up significantly to $24.78 per barrel in 2000 from $14.85 per barrel in 1999 and $15.84 per barrel in 1998. Operating expenses increased as a result of higher natural gas and electricity prices. Empress' contribution to operating income was $97 million in 2000, $37 million in 1999 and $19 million in 1998, with operating margins of 38%, 26% and 22%, respectively. Natural gas prices impact the operating margin because natural gas must be purchased and re-injected into the transmission pipeline to ensure that the heat content of the natural gas continuing on in the pipeline meets pipeline specifications. The delayed rise in the price of natural gas relative to that of crude oil (the latter generally dictates the selling price of NGL) thus contributed to the financial results.

Marketing and midstream administrative expenses were up $20 million in 2000 and $5 million in 1999 as a result of increased volumes and activity.

Operating Expenses

Operating expenses for PanCanadian totalled $5,438 million in 2000, $3,305 million in 1999 and $2,714 million in 1998.

Included in these results are expenses principally associated with upstream production of $1,284 million in 2000, $1,072 million in 1999 and $1,122 million in 1998. Throughout the period, the impact of additional costs associated with higher natural gas production volumes was partially offset by a focus on strict cost management and improved efficiency. As well, the decline in oil production in 2000 and 1999 versus 1998 provided a partial offset.

Unit operating costs for working interest crude oil and natural gas production increased just 3% to $3.98 per boe in 2000 after declining 5% to $3.88 per boe in 1999. In the Western Basin, expenses per boe for working interest oil and gas were $3.95 in 2000, compared with $3.64 in 1999 and $3.69 in 1998. Higher input costs, particularly for electricity, put pressure on operating expenses in 2000. In the U.K., expenses per barrel of oil were $5.29 in 2000.

Administrative expenses per boe averaged $0.63 in 2000, up slightly from $0.59 in 1999 and 1998. The increase primarily reflected the growth in PanCanadian's marketing business. Expenses in 2000 and 1999 were also increased by higher incentive pay accruals. As well, 1999 charges included costs for a supply management project and 1998 expenses reflected one-time costs associated with a 10% reduction in the workforce.

The combined rate of depletion and depreciation, excluding reclamation, for Western Basin operations was \$6.33 per boe in 2000, compared with \$6.45 per boe in 1999 and \$5.71 per boe in 1998. In 1998, depletion, depreciation and amortization included an \$18 million charge primarily for a reclamation provision for PanCanadian's East Coast offshore operations. For other operations outside the Western Basin, depletion, depreciation and amortization expenses totalled \$186 million in 2000, \$84 million in 1999 and \$149 million in 1998. These amounts included writedowns on international operations of \$49 million in 2000, mainly for activities in Australia and Africa, and \$37 million in 1999, largely attributable to activities in Venezuela.

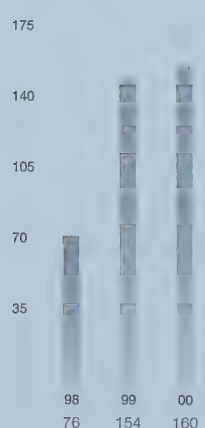
Operating Expenses

(in millions)	**2000**	1999	1998
Operating costs	**\$ 386**	\$ 354	\$ 395
Administration	**125**	95	93
Depreciation and amortization	**265**	190	202
Depletion	**508**	433	432
	1,284	1,072	1,122
Empress	**152**	97	57
Purchased product	**4,002**	2,136	1,535
Total operating expenses	**\$ 5,438**	\$ 3,305	\$ 2,714

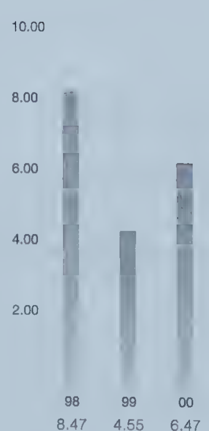
Capital Spending

Capital spending was \$1,469 million in 2000, excluding \$689 million for the acquisition of the oil and gas assets from Montana Power and \$259 million for the purchase of the Scott/Telford operations. This compared with \$844 million in 1999 and \$894 million in 1998, when there were no major acquisitions. PanCanadian continued to rationalize its assets in the last three years, and proceeds on asset sales amounted to \$114 million in 2000, \$72 million in 1999 and \$60 million in 1998. The rise in net spending during 2000 came about as PanCanadian stepped up its activities to capitalize on better energy prices. Most of the added investment funded natural gas development in Western Canada.

Western Basin Proved Reserves Replacement
(on a boe basis as a percentage of production, before acquisitions and dispositions)



Western Basin Finding and Development Cost
(\$ per boe)



In addition, PanCanadian is investing in two natural gas-fired power generation plants near Calgary, Alberta. Construction of the Cavalier and Balzac base load power plants, having a total power generation capacity of 212 megawatts, is underway and on schedule. PanCanadian is a 100% owner of the Cavalier plant and a 50% owner of the Balzac plant. Both plants will be fully operational in the fourth quarter of 2001 and each will use 18 mmcf per day of natural gas. Natural gas-fired power generation allows PanCanadian to benefit from the convergence of natural gas and electricity markets and enhances its core natural gas business.

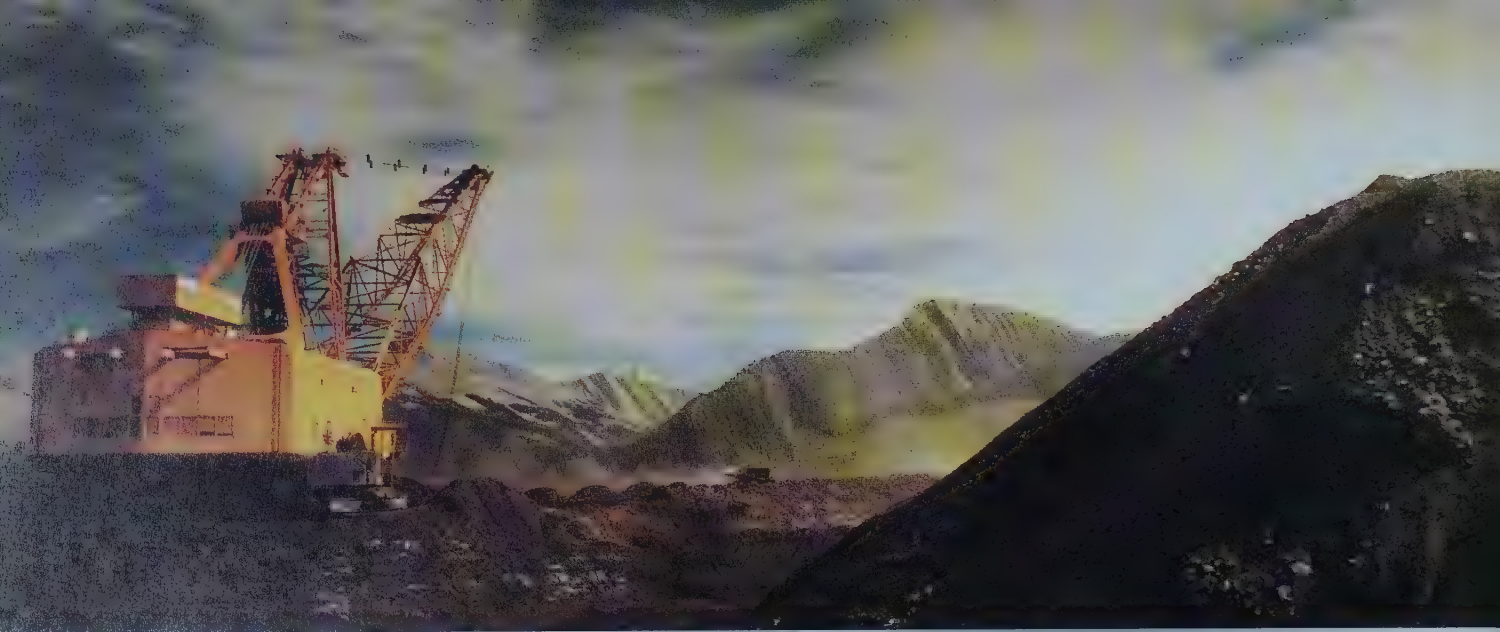
Proved reserve additions before acquisitions and dispositions totalled 163 million boe in 2000, up from 144 million boe in 1999 and 76 million boe in 1998. In the Western Basin, proved reserve additions for natural gas were 692 bcf and crude oil and NGL were 40 million barrels in 2000. International proved reserves added were 7.5 million barrels of oil related chiefly to the Scott/Telford operation in the U.K. sector of the North Sea. For the Western Basin and all other operations, the reserve replacement ratio was 158% in 2000 and compared favourably with 154% in 1999 and 76% in 1998.

In the Western Basin, finding and development costs were $6.47 per boe in 2000, $4.55 per boe in 1999 and $8.47 per boe in 1998. Total finding and development costs of $7.80 per boe in 2000 compared with $5.38 per boe in 1999 and $10.82 per boe in 1998. The increase in 2000 in part reflects a number of large projects, such as those at Christina Lake and Weyburn, with delayed results.

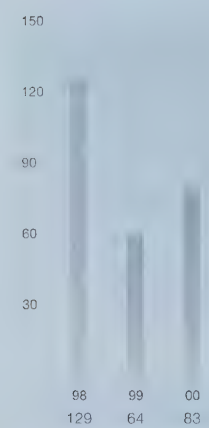
In December 2000, PanCanadian announced a capital spending program of $1.5 billion for 2001. Natural gas exploration and development expenditures are approximately 60% of the total program, consistent with PanCanadian's strategic focus on expanding its natural gas activities in North America. The program supports expected natural gas production growth of 15% to an average level of nearly 1.1 bcf per day in 2001. At year-end, the approved budget did not include capital for the potential future development of the Deep Panuke discovery.

Outlook

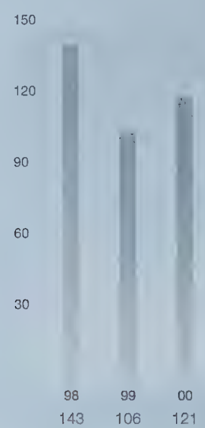
PanCanadian expects strong results in 2001 given the solid fundamentals of the current crude oil and natural gas markets and the benefits already locked in through its hedged positions. As well, a focus on cost performance and disciplined investment, combined with the opportunities presented by its unparalleled land position in the Western Basin and the emerging potential outside Western Canada, are anticipated to result in strong growth in 2001 and beyond.



Operating Income
($ millions)



Cash Flow
($ millions)



Fording's Operations and Export Coal Markets

Fording's 2000 [illegible] **for metallurgical** [illegible] **markets. In the** [illegible] **led to signific**[illegible] **15.1 million** [illegible] **thermal coal** [illegible] **operating in**[illegible]

Fording's operations include three metallurgical coal mines (mountain mining operations) in British Columbia, which export principally to Pacific Rim countries and are the main contributors to its revenues. Fording's major objectives are to focus on maintaining and enhancing its position as a low-cost producer while capitalizing on its high-quality coal and blending capabilities to increase sales volumes of export coal.

Fording's prairie mining operations include two thermal coal mines in Alberta, as well as overburden removal operations and royalty generating mineral properties throughout Canada's prairie provinces. Fording will continue to capitalize on opportunities in these activities as they arise. Late in 2000, EPCOR Utilities Inc. announced a plan to seek regulatory approval for a third generating unit at its Genesee facility, southwest of Edmonton, Alberta. Fording is a 50% owner and operator of the mine which supplies coal to Genesee. In addition, Fording and ENMAX Corporation (ENMAX), a wholly owned electric utility of the City of Calgary, signed a letter of intent to investigate the feasibility of constructing a coal fired 400-megawatt electricity generation plant near Brooks, in southern Alberta. The project would use Fording's coal reserves to produce electricity for ENMAX and other customers in the Calgary region.

The industrial minerals operations include the mining and processing of wollastonite at NYCO Minerals in New York State and Minera NYCO in Sonora, Mexico. Fording continues to face intense competition from exports from China, especially in the lower-value grades of wollastonite. However, markets are expected to benefit from projected global demand growth.

Operating Income and Cash Flow

Operating income of $83 million in 2000 was up from $64 million in 1999, but down from $129 million in 1998. Similarly, ROCE at 8.7% in 2000 was better than 6.1% in 1999, but lower than 12.2% in 1998. Cash flow improved by $15 million to $121 million in 2000, following a decline of $37 million to $106 million in 1999.

Lower operating income contributions in 2000 and 1999, as compared with 1998, were principally the result of decreases in metallurgical coal prices in each year and partially offset by higher sales volumes and lower unit costs.

Hard coking coal price negotiations with a consortium of Japanese steel mills concluded with an approximate 5% price reduction, effective April 1, 2000. This followed an 18% decrease in the benchmark price for coal in the previous contract year. Negotiations for soft coking coal resulted in similar declines. The reductions were in line with prices negotiated by other Canadian and Australian suppliers. Non-Asian markets fared somewhat better.

Fording's average U.S. dollar selling price for metallurgical coal sold to all markets was reduced by 3% in 2000 and 19% in 1999. An improvement in the effective Canadian/U.S. dollar foreign exchange rate more than offset the U.S. dollar price decline in 2000.

Fording

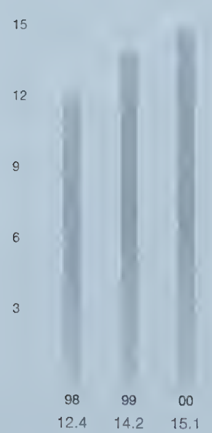
(in millions)		2000		1999		1998
Revenues	**$**	**896**	$	856	$	906
Expenses		**813**		792		777
Operating income	**$**	**83**	$	64	$	129

Revenues and Operating Expenses

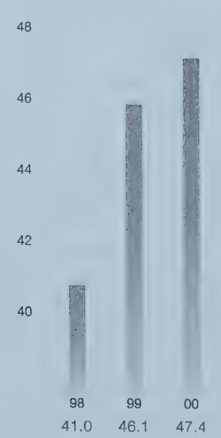
Revenues recovered to $896 million in 2000, after decreasing to $856 million in 1999 from $906 million in 1998. Weaker metallurgical coal prices limited the benefits of higher export volumes in both years, up to 15.1 million tonnes in 2000 from 14.2 million tonnes in 1999 and 12.4 million tonnes in 1998.

Operating expenses of $813 million in 2000 and $792 million in 1999 compared with $777 million in 1998. Higher expenses in 1999 and 2000 chiefly reflected the respective 15% and 6% increases in export volumes of metallurgical coal. Reduced distribution costs, aggressive cost control programs and increased productivity more than offset rising diesel fuel and natural gas prices to favourably affect unit costs in the export coal operations.

Sales Volume at the Mountain Mining Operations
(million tonnes)



Productivity at the Mountain Mining Operations
(tonnes of cleaned coal per employee per eight-hour shift)



Revenues

(in millions)	2000	Changes Volume*	Changes Price	1999	Changes Volume*	Changes Price	1998
Export coal operations	**$ 756**	41	3	$ 712	117	(174)	$ 769
Prairie operations	**85**			85			83
Industrial minerals operations	**55**	1	(5)	59	5	–	54
	$ 896			$ 856			$ 906

* Volume figures represent revenue variances resulting from sales.

Mountain Mining Operations

The mountain mining operations in British Columbia produced an operating income of $46 million in 2000, $23 million in 1999 and $86 million in 1998. Weak Asian economies resulted in declining steel production through most of 1998 and 1999. At the same time, many Australian coal producers, aided by a falling Australian dollar and low transportation costs, were increasing productivity and expanding production. The resulting imbalance in supply/demand fundamentals led to a sharp decrease in world coal prices. As 2000 progressed, there were some positive signs supporting an outlook of stronger prices. Steel production increased, while coal supply declined as the difficult markets caused a number of less productive mines to close. Fording continued to benefit from diverse markets, and strengthened and expanded its customer relationships.

Lower U.S. dollar selling prices led to similar declines in the received Canadian dollar price. However, a lower loss associated with previously established currency hedge positions led the realized Canadian dollar price to improve slightly in 2000 in contrast with a decline of 20% in 1999. On a unit basis, operating expenses decreased by 3% in 2000 after a decline of 12% in 1999. Improved productivity, lower distribution costs and increased efficiency associated with higher volumes contributed to the lower unit costs.

*Coal Shipments by Area**

(percentage)	2000	1999	1998
Japan	**30**	29	26
Korea	**22**	23	23
Europe/Mediterranean	**34**	37	39
Americas	**7**	6	8
Taiwan	**7**	5	4
Total	**100**	100	100

* Mountain mining operations

Prairie Operations

The prairie operations contributed operating income of $30 million in 2000, down slightly from $33 million in 1999 and $34 million in 1998. Revenues from the prairie operations were $85 million in 2000 and in 1999, compared with $83 million in 1998.

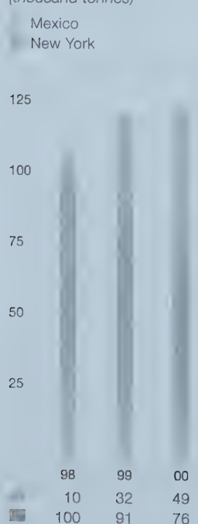
Included in the prairie operations was operating income of $4 million in both 2000 and 1999 and $5 million in 1998 from an agreement with Syncrude Canada Ltd. for the removal of overburden from oil sands in the Athabasca region of Alberta. The work, under the contract with Syncrude, is to be completed in mid-2001 at which time equipment will be reallocated to other Fording operations.

Industrial Minerals Operations

Operating income from industrial minerals operations was $7 million in 2000, down slightly from $8 million in 1999 and $9 million in 1998. Revenues from the industrial minerals operations were $55 million in 2000, $59 million in 1999 and $54 million in 1998.

Wollastonite markets continued to be in an oversupply situation in 2000 and 1999. Strong competition, particularly from Chinese sources, occurred in the low-value products. This, together with a weakened Euro, resulted in an average selling price decline of 7% in 2000 and 4% in 1999. Unit operating costs decreased 8% in 2000 due to increased volumes of low-value grades from Mexico and a change in product mix. Operating costs had increased by 6% in 1999 reflecting a change in sales mix to more high-end treated products which are more expensive to produce but higher in margin. Sales volumes of wollastonite were largely unchanged at 125,000 tonnes in 2000, following an increase of 12% in the prior year.

Sales Volume of Wollastonite
(thousand tonnes)



Capital Spending

Despite coal prices being at all time lows, Fording's cash flow continued to exceed capital spending requirements, with free cash flow amounting to approximately $100 million in 2000 and $120 million in 1999. Additions to properties amounted to just under $40 million in both 2000 and 1999. Over the two-year period, the mountain mining operations spent $47 million, primarily for the replacement and improvement of mining and processing equipment, as well as new mine pit development. In the same period, capital spending at the prairie operations was $18 million, largely on equipment replacement, and at the industrial minerals operations was $12 million, principally for production improvements and further mine development.

Capital spending for ongoing operations in 2001 is not expected to increase materially and will continue to be directed towards maintenance and minor improvements.

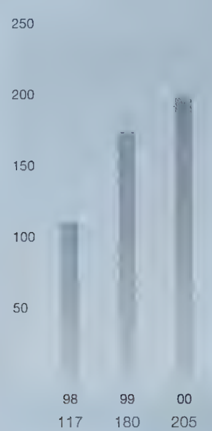
Outlook

An improving global supply/demand balance for metallurgical coal is expected to result in price increases and an improvement in Fording's financial performance. However, price negotiations with the JSM for the contract price of metallurgical coal from April 1, 2001 to March 31, 2002 have yet to be concluded.

As well, the prairie mining operations are pursuing new opportunities for use of Fording's thermal coal in power generation. The industrial minerals division will continue to focus on development of new products and applications for wollastonite, though prices are expected to remain under pressure for low-end commodity grades.

Operating Income
($ millions)

Cash Flow
($ millions)



Canadian Pacific Hotels' Properties

Canadian Pacific Hotels & R

Revenues under

Hotels benefited

of its portfolio

With the acquisitions of Delta Hotels Limited (Delta) and Princess Hotels (Princess) in 1998 and the formation, with new partners, of Fairmont Hotels & Resorts (Fairmont) in 1999, Canadian Pacific Hotels established itself as the market leader in Canada and the largest luxury hotel management company in North America. Canadian Pacific Hotels has a 100% interest in Delta, which manages and franchises 35 first-class urban and resort properties across Canada. It also holds a 67% controlling interest in Fairmont, which manages 36 luxury city centre and resort hotels such as The Plaza in New York City, The Fairmont San Francisco, and The Fairmont Banff Springs. Late in 2000, Fairmont extended the use of the Fairmont brand to all its managed properties in Canada, while retaining individual hotel names of historic significance. A closer association of the Canadian properties with Fairmont branded properties in the U.S., Mexico, Bermuda and the Caribbean is expected to enhance revenue opportunities through a consistent sales message and increased international recognition.

In addition to hotel management, Canadian Pacific Hotels holds ownership interests in luxury hotels. At December 31, 2000, Canadian Pacific Hotels had real estate interests in 20 properties, mainly luxury resort properties, and an approximate 34% investment interest in Legacy Hotels Real Estate Investment Trust (Legacy), which owns 19 luxury and first-class hotels. In the first quarter of 2001, Canadian Pacific Hotels sold The Fairmont Empress in Victoria, British Columbia and Fairmont Le Château Frontenac in Quebec City, Quebec to Legacy for $305 million. This transaction allowed Canadian Pacific Hotels to realize the value of some of its real estate assets, while maintaining long-term management contracts at these premier properties. The funds from the dispositions are expected to contribute to financing for other strategic initiatives. Canadian Pacific Hotels received cash proceeds of approximately $180 million and an increased interest in Legacy, up to 45% from its current 34%. Canadian Pacific Hotels expects to reduce its ownership interest back to 34% with a subsequent sale of Legacy units through a secondary offering, subject to favourable market conditions.

Canadian Pacific Hotels plans to continue building the Fairmont and Delta brands in North America while also looking for expansion opportunities for the Fairmont brand outside of North America. Such expansion may require investment in additional management contracts and, in some cases, associated real estate assets. Canadian Pacific Hotels may consider the sale of current real estate interests to provide a portion of the funding necessary for growth.

In 2000, Canadian Pacific Hotels made a strategic investment in a resort in Canada which enjoys the benefits of a highly defensible market position with limited risk of future direct competition, when it purchased its partner's 80% ownership interest in The Fairmont Chateau Whistler. The hotel is managed by Fairmont and has evolved into a world-class, all-season resort, earning numerous awards of distinction in North America and internationally and complements the company's collection of distinctive mountain resorts. This purchase was followed early in the first quarter of 2001 with the acquisition of the remaining 51% interest in The Fairmont Royal Pavilion and The Fairmont Glitter Bay in Barbados from its partners, allowing more control over the strategic direction of interests in the Caribbean.

Early in January 2001, Fairmont signed a letter of intent to manage a new $140 million, 400-room resort on Puerto Rico's Rio Grande, 25 miles east of San Juan. Construction of the resort, featuring a 12,000 square-foot spa, 36 holes of golf and 30,000 square feet of meeting space, is expected to begin in mid-2001, with a projected opening of fall 2003. Later in January, Canadian Pacific Hotels announced that another luxury property would be added to the Fairmont chain when it entered into an agreement to purchase the Kea Lani Resort in Wailea, Maui. The property will be known as The Fairmont Kea Lani Maui after the transaction closes. The 450-room hotel, including 37 private beachfront villas, is situated on Polo Beach in the world-class destination of Wailea, Maui. The Fairmont Kea Lani will be Fairmont's first resort in the Pacific, giving the luxury brand a presence in one of the most coveted travel destinations in the world.

Delta continued to solidify its position as the largest first-class hotel company in Canada, with a growing presence in resort operations. In February 2000, the 38-storey, 434-room Delta Pinnacle opened in the heart of downtown Vancouver and, in June 2000, Delta assumed management of Pinestone Resort located in Haliburton, Ontario. The 104-room resort property will be branded as a Delta hotel later in 2001 once renovations are complete. In September 2000, Delta entered into an agreement with ClubLink Corporation (ClubLink) to build a 250-room hotel and conference centre site at Glen Abbey Golf Club in Oakville, Ontario. In addition, effective January 8, 2001, Delta assumed management of ClubLink's four resort properties in the Muskoka region of Ontario. Also in September, Delta announced its involvement in the design and construction of Delta Sun Peaks Resort, located in Sun Peaks, British Columbia. This 230-room hotel and conference centre will be the largest full service hotel in Sun Peaks and will open during the 2001/2002 ski season. These agreements represent important growth steps as Delta continues to strengthen and expand its resort portfolio. Financing of the Glen Abbey and Sun Peaks ventures will be provided by Canadian Pacific Hotels with Delta managing the resorts.

Operating Income and Cash Flow

Fiscal 2000 was Canadian Pacific Hotels' seventh consecutive year of record results, with operating income of $255 million compared to $223 million in 1999 and $150 million in 1998. In 2000, the company continued to grow earnings from both management and ownership of hotels with the formation of Fairmont late in 1999, by adding contracts to the managed hotels portfolio and improving operating performance, particularly at the Fairmont Princess warm-weather resorts. In 1999, Canadian Pacific Hotels benefited from the addition of the Princess properties for the full year and healthy growth in average daily room rates (ADR), particularly at the Canadian resorts.

While Canadian Pacific Hotels benefited from solid fundamentals in the lodging industry in 2000 and 1999, a number of factors negatively impacted performance in 2000. Demand for Canadian destinations from international source markets was weaker due to the threat of an Air Canada strike for most of the prime tourist season, and the effect of the merger of Air Canada and Canadian Airlines on space and pricing for international travel partners. In addition, the weakness of the Euro made Europe a generally more attractive vacation destination than North America. In 2001, Canadian Pacific Hotels expects the Canadian resort market to rebound, however, there are still some concerns about the long term damage done by the airline challenges.

Canadian Pacific Hotels & Resorts

(in millions)		2000		1999		1998
Revenues	$	**824**	$	749	$	519
Expenses		**569**		526		369
Operating income	$	**255**	$	223	$	150

Cash flow of $205 million in 2000 was up 14% from $180 million in 1999 and up 75% from $117 million in 1998. The increases in 2000 and 1999 were mainly due to the continuing improvement in earnings. ROCE was 13.2% in 2000 and compared with 13.4% in 1999 and 13.7% in 1998.

Canadian Pacific Hotels Divisional Operating Income

(in millions)		2000		1999		1998
Hotel Ownership						
Owned hotels	$	**173**	$	167	$	122
Income from equity interests		**30**		26		17
		203		193		139
Hotel Management						
Fairmont		**42**		23		13
Delta		**10**		7		3
		52		30		16
Other		**–**		–		(5)
Operating income	$	**255**	$	223	$	150

Hotel Ownership

Operating income from hotel ownership, including wholly owned hotels and equity interests, was $203 million in 2000, up $10 million, or 5%, from $193 million in 1999, due chiefly to higher occupancies at the Fairmont Princess warm-weather resorts which experienced significant benefits from the re-flagging of the properties to Fairmont. An increase of $54 million, or 39%, in 1999 largely reflected the acquisition of the Princess properties in August 1998. In addition, Canadian resort properties also reported stronger results over the past two years. However, management fees paid to Fairmont, subsequent to its formation in October 1999, limited their gains.

Operating income from wholly owned hotels was $173 million in 2000, $167 million in 1999 and $122 million in 1998. The ADR rose 7% to $241.03 in 2000 following a 3% increase to $226.21 in 1999. The ADR benefited from the decision to limit business to the luxury and first-class segments of the industry and a strong economy. The occupancy rate remained relatively flat at 63.9% in 2000 after declining 1.2 percentage points to 64.1% in 1999. The occupancy declines reflected the decision to improve revenue per available room (RevPAR) by strengthening room rates. Rate increases boost operating income without the additional costs associated with higher occupancies. In addition to the RevPAR gain in 2000, the purchase of the remaining 80% partnership interest in The Fairmont Chateau Whistler in November 2000 contributed to the increase in operating income in the year.

Ownership of equity interests, mainly in Legacy, contributed $30 million in operating income, $4 million ahead of 1999 and $13 million over 1998. There was a significant improvement in operating income because of growth in earnings at Legacy and the added ownership interests in the Barbados resorts added through the acquisition of Princess in 1998.

Growth at Legacy was a result of strong fundamentals in most Canadian city centre markets, as well as the acquisition of two properties in 2000 and three properties in 1999. The ADR of $149.33 in 2000 compared favourably with $140.33 in 1999 and $130.20 in 1998. The occupancy rate, however, decreased slightly to 69.6% from 72.0% in 1999 and 74.1% in 1998. In 2000, Legacy obtained two properties from third parties. The new Delta Winnipeg, formerly the Crowne Plaza, and The Fairmont Winnipeg, formerly The Lombard, were acquired at a combined cost of approximately $60 million. In 1999, Delta sold its leasehold interest in the Delta Barrington in Halifax to Legacy for $4 million and Canadian Pacific Hotels sold the Delta Toronto East and Four Points Hotel Toronto Airport to Legacy for $60 million.

Management Operations

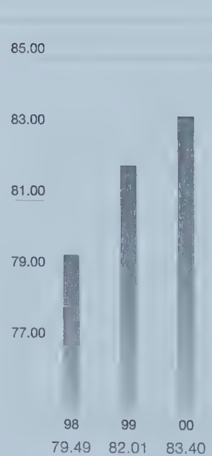
Operating income from management operations increased significantly to $52 million in 2000 from $30 million in 1999 and $16 million in 1998. Revenues, principally management and incentive fees, from the Fairmont and Delta operations totalled $84 million in 2000, $53 million in 1999 and $31 million in 1998. Growth stemmed largely from the formation of Fairmont in October 1999 and the expansion of the managed hotel portfolio.

Fee revenues included $20 million in 2000 and $9 million in 1999 charged to Canadian Pacific Hotels' owned properties in the period since Fairmont was established. The management of Legacy's properties generated fees of $27 million in 2000, $22 million in 1999 and $16 million in 1998. Third-party property management fees contributed the remainder of the revenues. Revenue from management fees increased over the past two years, primarily due to the addition of seven management contracts through the formation of Fairmont in October 1999. For comparative purposes, fees associated with the management of Legacy and third-party properties in the period prior to the establishment of Fairmont were restated as sources of operating income for either Fairmont or Delta.

Fairmont management operations contributed operating income of $42 million in 2000, $23 million in 1999 and $13 million in 1998. These increases reflect the inclusion of a full year's operating results from the seven management contracts added through the formation of Fairmont in October 1999 and the subsequent additions of The Fairmont Miramar Hotel Santa Monica in November 1999 and The Fairmont Kansas City in February 2000. For the Fairmont portfolio of hotels, the ADR increased 8% to $249.01 in 2000 and 7% to $231.57 in 1999. The average occupancy was 67.6% in 2000, down slightly from 69.7% in 1999 and 70.8% in 1998, primarily due to the decision to increase RevPAR through a higher ADR.

Fairmont Hotels Revenue per Available Room
($)

Delta Hotels Revenue per Available Room
($)



Operating income from Delta's management operations was $10 million in 2000, $7 million in 1999 and $3 million for the eight months it was owned in 1998. Delta's ADR of $121.96 was up from $115.97 in 1999 and $107.82 in 1998. The increases in ADR more than offset occupancy declines to 68.4% in 2000 from 70.7% in 1999 and 73.7% in 1998. Performance at The Delta Vancouver Airport hotel was adversely affected in 2000 by a four-week strike during peak summer season.

Revenues and Operating Expenses

Revenues under management increased to $2,467 million in 2000 and $1,790 million in 1999 from $1,241 million in 1998, chiefly due to the expanded management operations.

Reported revenues of $824 million in 2000 compared favourably with $749 million in 1999 and $519 million in 1998. Revenues were principally derived from the ownership of hotel properties, though management operations contributed a growing component. The addition of Fairmont in the last quarter of 1999 increased fee revenue in that year by approximately $4 million. The Princess and Delta operations provided revenues of $325 million in 1999 compared with $147 million in 1998 when they were owned for only part of the year.

Operating expenses were $569 million in 2000, $526 million in 1999 and $369 million in 1998. These variances were mainly due to the addition of new operations. The operating margin improved to 30.9% in 2000 from 29.8% in 1999 and 28.9% in 1998.

In January 2001, Canadian Pacific Hotels announced that it had joined an alliance with other major hotel companies that use the services of Avendra. Once fully operational, Avendra is expected to be the largest Internet-enabled business-to-business hospitality procurement company in the world. Canadian Pacific Hotels expects its participation in Avendra to drive new efficiencies in the management of its supply chain.

Capital Spending

Capital spending, excluding business acquisitions and investments, amounted to $132 million in 2000 and $123 million in 1999, with the largest amount directed towards technology initiatives and profit improving projects at the owned hotels.

In 2000, Canadian Pacific Hotels commenced new e-commerce initiatives to further increase operational efficiencies through direct web-based booking and advanced yield management systems. In addition, improved brochure information, redesigned hotel search engines and access to personalized web-based Fairmont President's Club pages are being introduced to develop and maintain customer loyalty.

Canadian Pacific Hotels also entered into a multi-year marketing agreement with, as well as making a $5 million equity investment in, LifeCast.com Inc., a leading provider of online services for private clubs and their members. This relationship is expected to generate direct and tailored access to new customers in target markets.

The Fairmont Princess properties have been undergoing extensive renovations since their acquisition in 1998. Projects include the addition of a full service spa and a family-oriented water feature at The Fairmont Scottsdale Princess in Arizona. In Bermuda, investments include a full service spa at The Fairmont Southampton Princess, and an Entrée Gold concierge floor, refurbished lobby, ballroom and meeting rooms at The Fairmont Hamilton Princess. Projects at The Fairmont Acapulco Princess in Mexico included a refurbished lobby and full service spa.

At the Canadian resorts, Canadian Pacific Hotels is continuing to upgrade its hotels while preserving the beauty of these historic properties and protecting the environment. The Fairmont Banff Springs will have a new lobby and separate motor coach entry. As well, its kitchens will be expanded and equipped with state-of-the-art facilities. Spas are planned at The Fairmont Empress and The Fairmont Chateau Lake Louise, and a new staff residence was built at The Fairmont Jasper Park Lodge. Approvals to construct a meeting facility and employee housing at The Fairmont Chateau Lake Louise were obtained and construction is expected to begin shortly.

These additions were supplemented with selective investments integral to maintaining competitiveness. In 1999, these investments included a 25% equity interest in Fairmont Le Manoir Richelieu, re-opened in June 1999 following a $140 million investment in the property by its three partners, which transformed the hotel into an all-season resort, with a casino, spa and golf course. In October 1999, Canadian Pacific Hotels opened its first Fairmont hotel in Canada, The Fairmont Vancouver Airport, built at a cost of $65 million. This wholly owned property is directly linked to Vancouver International Airport and features ultra-modern facilities. In November 2000, Canadian Pacific Hotels paid $142 million mainly for the purchase of its partner's 80% interest in The Fairmont Chateau Whistler.

Canadian Pacific Hotels' capital expenditures exclude spending undertaken by Legacy. However, acquisitions and profit improving projects by Legacy over the past two years boosted the performance of Canadian Pacific Hotels' management operations. Legacy plans to continue its selective approach to growth in the future.

Outlook

Canadian Pacific Hotels is expected to continue its solid growth in operating income. Tourism remains a strong growth industry supported by favourable demographic trends and a propensity for increased travel. Although there are issues of new supply in some markets, the outlook for 2001 remains relatively positive assuming only a modest slowdown in the North American economy. Canadian Pacific Hotels also anticipates significant growth at its owned hotels as a result of the major renovations currently underway.

While reaping benefits from enhancing the value and reputation of its Fairmont and Delta brands, Canadian Pacific Hotels expects to expand its management operations through further acquisitions that may be funded by redeploying capital from its real estate interests.

REAL ESTATE ACTIVITIES

Consolidated results in 2000 and 1998 included income from Canadian Pacific's holdings of real estate. This real estate includes land assets in Southtown, in downtown Toronto just south of Union Station and west of the Air Canada Centre, and Coal Harbour, in downtown Vancouver which stretches along the waterfront over one kilometre from The Fairmont Waterfront towards Stanley Park. Activities related to the servicing and sale of land assets contributed operating income of $10 million and $31 million in 2000 and 1998, respectively, and net income of $10 million and $17 million in 2000 and 1998, respectively. In 1999, there was no income from real estate activities.

OTHER CONSOLIDATED INCOME STATEMENT ITEMS

Net Interest Expense

Net interest expense in 2000 was $321 million on average net debt of $4,233 million, up from $275 million in 1999 on average net debt of $3,745 million and $251 million in 1998 on average net debt of $2,762 million. Interest charges rose over the period primarily because of significant new investments by Canadian Pacific Railway and Canadian Pacific Hotels in their business assets, as well as the Corporation's spending on its share buy-back program.

Non-operating Items

The net charge for non-operating items increased to $123 million in 2000 from $46 million in 1999 and $77 million in 1998. There were net foreign exchange losses of $13 million in 2000 and $56 million in 1998 that contrasted with a net foreign exchange gain of $16 million in 1999. As well, the Corporation accrued in 2000 for payouts likely to be earned under long term incentive plans due to the excellent earnings and appreciation in market value of the Corporation's common shares in the year. In 1999 and 1998, there were reversals of $7 million and $47 million, respectively, of subsidiaries' information technology costs related to Year 2000 expenses.

Income Taxes

The effective tax rate in 2000 was 29.3% and compared with 26.3% in 1999 and 25.6% in 1998.

In 2000, benefits from the proposed reductions in the federal corporate tax rates were partially offset by other tax provisions. The federal government has announced a reduction in the corporate tax rate for certain industry sectors from 28% to 21% over a four-year period ending in 2004. In accordance with CICA recommendations, some of the businesses recognized a decrease in their future tax expense in 2000, mainly $131 million at Canadian Pacific Railway and $11 million at Canadian Pacific Hotels. These reductions were largely offset by a $77 million provision for future taxes related to non-recurring items recorded by PanCanadian.

In 1999 and 1998, PanCanadian tax effected losses incurred by its businesses in the United States. This resulted in a benefit of $22 million in 1999 and $25 million in 1998. As well, there were favourable tax reassessments throughout the three years at the corporate level.

The Corporation anticipates that its cash taxes will increase significantly in 2001 as PanCanadian expects to incur significant amounts of current taxes in 2001, largely due to strong commodity pricing and increased production in 2000.

Minority Interest

Minority interest amounts on the statement of income mainly represent minority shareholders' interests in the earnings of PanCanadian. The increases in minority interests to $152 million in 2000 and $48 million in 1999, from $20 million in 1998, were largely attributable to stronger results at PanCanadian, with associated minority interest amounts of $146 million in 2000, $50 million in 1999 and $20 million in 1998. The Corporation's ownership interest in PanCanadian decreased slightly to 85.6% at December 31, 2000 from 86.6% at year-end 1999 and 86.7% at year-end 1998. Minority interest amounts on the statement of income also include the one-third interest in Fairmont Hotels & Resorts, formed in early October 1999, not held by Canadian Pacific Hotels, with these amounts increasing to $6 million in 2000 from $1 million in 1999.

Goodwill

Goodwill charges, net of tax, were $45 million in 2000, $40 million in 1999 and $33 million in 1998. The increases were mainly the result of acquisitions undertaken by CP Ships where goodwill charges were $27 million in 2000, $22 million in 1999 and $17 million in 1998. The Corporation's goodwill charges associated with its investment in PanCanadian were unchanged at $15 million in each year. The remaining goodwill charges are attributable to activities at Canadian Pacific Hotels.

Preferred Dividends

Preferred share dividends totalled $12 million in 2000 and $10 million in 1999. Late in the first quarter of 1999, the Corporation completed the issue of 5.65% Cumulative Redeemable First Preferred Shares, Series A, for net proceeds of $213 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

Cash flow of $3,920 million in 2000 increased 67% over $2,351 million in 1999 and 94% over $2,025 million in 1998. Significant improvements at PanCanadian led to the higher cash flow.

Cash from operations amounted to $3,341 million in 2000, compared with $1,820 million in 1999 and $2,716 million in 1998. In 2000, other operating activities required an outlay of $263 million and largely included pension funding in excess of amounts expensed, site restoration expenditures, rebranding costs and funding of other deferred items. In 1999, non-cash working capital was increased by payments made by Canadian Pacific Railway for its new locomotives. Non-cash working capital was reduced in 1998 by collection of instalment receipts relating to the sale of business hotels to Legacy and disposition of an equity interest in Laidlaw Inc. In addition, cash restructuring payments at Canadian Pacific Railway increased to $163 million in 2000 from $140 million in 1999 and $117 million in 1998.

The improved cash flow of 1999 and 2000 provided a significant portion of the funding for net investing activities of $5,548 million and an outlay of $661 million for the share buy-back program. The Corporation maintained a solid financial position. At year-end 2000, net cash on hand was $633 million, the net debt to equity ratio was 31:69, the net debt to cash flow ratio was 1.2:1, and interest coverage, as measured by earnings before interest, taxes and depreciation to net interest expense, was 9.6:1. Compared with year-end 1999, the net debt to equity ratio was up slightly from 30:70, but the net debt to cash flow ratio improved significantly from 1.6:1 and the interest coverage ratio improved from 6.2:1.

Investing Activities

Additions to properties, net of proceeds on asset sales, were $2,282 million in 2000 and compared with $1,799 million in 1999 and $2,179 million in 1998. PanCanadian's expenditures were managed to reflect a strengthening in oil prices after the record lows in late 1998 and early 1999 as well as increasing demand for natural gas at stronger prices. Its net spending resulted in an outlay of $1,355 million in 2000, $772 million in 1999 and $833 million in 1998. Canadian Pacific Railway's four-year franchise renewal program ended in 1999 and its net spending declined to $513 million in 2000 from $835 million in 1999 and $1,037 million in 1998. CP Ships' net expenditures of $256 million in 2000 were up $137 million from 1999 and $147 million from 1998. The increased spending in 2000 was primarily for the acquisition of used containerships. Canadian Pacific Hotels' net expenditures of $132 million in 2000 compared with $59 million in 1999 and $102 million in 1998. Canadian Pacific Hotels' spending was principally directed to maintenance capital and profit enhancing projects at its luxury resort properties.

Expenditures for business acquisitions and investments amounted to $1,263 million in 2000, compared with $28 million in 1999 and $1,243 million in 1998. The investments in 2000 were largely composed of a total outlay of $948 million by PanCanadian for the Montana Power assets and interests in the Scott/Telford properties. As well, CP Ships paid $106 million to acquire its partner's 50% interest in Americana Ships, 100% of CCAL and other smaller investments. Similarly, Canadian Pacific Hotels paid $180 million mainly for its partner's 80% interest in The Fairmont Chateau Whistler and additional units in Legacy. In 1999, the spending was largely for Canadian Pacific Hotels' share of the refurbishment costs of Fairmont Le Manoir Richelieu. During 1998, expenditures included $958 million for the purchases by Canadian Pacific Hotels of Princess Hotels and Delta Hotels, as well as $285 million mainly for CP Ships' acquisitions of Ivaran Lines and ANZDL.

Financing Activities

Canadian Pacific's consolidated net borrowing position increased to $4,722 million at December 31, 2000, up from approximately $3,745 million at both year-end 1999 and 1998. The Corporation had $2,047 million of unused committed short term and long term lines of credit available at December 31, 2000 and $426 million of long term debt maturing within one year.

In May 2000, Canadian Pacific Railway filed a preliminary short form shelf prospectus with securities regulatory authorities in all provinces of Canada for the issuance, from time to time, of up to $700 million in debt securities during the two-year period that the shelf prospectus remains effective. All debt securities will be unsecured and will be issued pursuant to a trust indenture. The specific terms of any offering of debt securities will be set forth in a prospectus supplement. In June 2000, the railway completed its first issue under the medium term note program. The railway issued $250 million principal amount of 7.20% unsecured medium term notes maturing June 28, 2005. Proceeds were used to repay interim debt incurred in connection with Canadian Pacific Railway's asset revitalization program that upgraded its network, terminals, information systems and equipment.

Early in March 1999, the Corporation filed a short form shelf prospectus with securities regulatory authorities in all provinces of Canada for the issuance, from time to time, of up to $800 million in debt securities during the two-year period that the shelf prospectus remains effective. All debt securities will be unsecured and will be issued pursuant to a trust indenture. Under this medium term note program, the Corporation issued, in 1999 and 2000, a total of $700 million in principal amount of unsecured medium term notes at rates ranging from 5.85% to 6.65%.

In March 1999, PanCanadian issued $125 million of Coupon Reset Subordinated Term Securities that mature in 2034 and bear interest at an annual rate of 7.0% payable semi-annually for the first five years and is reset at the Five Year Government of Canada Yield plus 2% on each fifth anniversary of the date of issuance.

In August 2000, Canadian Pacific renewed its share buy-back program. The Corporation obtained regulatory approval to purchase for cancellation approximately 15.7 million, or 5%, of its common shares, with purchases to commence on August 19, 2000 and terminate by August 18, 2001. The Corporation expects to finance the buy-back program through cash from operations or unused lines of credit with negligible impact on its net debt to equity ratio. As of February 12, 2001, Canadian Pacific had purchased for cancellation 1,100,000 common shares at an average price of $40.12 per common share since August 19, 2000.

FUTURE TRENDS, COMMITMENTS AND RISKS

Canadian Pacific's results are affected by external market factors, such as fluctuations in the prices of crude oil, natural gas and coal as well as movements in interest and foreign exchange rates. The following table illustrates the estimated effect of changes, under current conditions, in the foreign exchange value of the Canadian dollar, interest rates, and prices of crude oil, natural gas and coal, on consolidated 2001 earnings.

Sensitivity of Consolidated 2001 Net Income

(in millions)	Effect on Net Income excluding Hedging	Effect on Net Income including Hedging
U.S.1 cent decrease in the value of the Canadian dollar	$ 30	$ 14
1 percentage point decrease in interest rates	$ (1)	$ (1)
U.S.$1.00 per barrel increase in the price of WTI crude oil		
– PanCanadian	$ 30	$ 14
– Other businesses	$ (7)	$ (7)
25 cent per mcf increase in natural gas prices	$ 48	$ 28
U.S.$1.00 per tonne increase in coal prices	$ 9	$ 9

Canadian Pacific utilizes various derivative financial instruments in order to mitigate the risks associated with changes in foreign currency exchange rates, interest rates and commodity prices.

Certain U.S. dollar revenues, long term debt and operating expenditures result in Canadian Pacific being exposed to fluctuations in the Cdn./U.S. dollar exchange rate. This risk is managed by selling and purchasing forward U.S. dollars at fixed rates in future periods. At December 31, 2000, Canadian Pacific had entered into foreign exchange contracts to sell approximately U.S.$3,525 million at rates ranging from $1.31 to $1.51 over the years 2001–2005. Gains and losses resulting from designated hedge contracts are only recognized in income in the period that the hedged exposure is recognized in income. The unrealized loss on these contracts as at December 31, 2000 was $296 million. In addition to the foreign exchange contracts designated as hedges discussed above, Canadian Pacific had entered into foreign exchange contracts, not designated as hedges, to sell U.S.$435 million at an average rate of $1.31 over the years 2001–2002. Gains and losses related to these non-hedged contracts are recognized in income in the current period. As such, a $16 million loss was recorded in 2000 resulting from a decline in the Cdn./U.S. dollar exchange rate during the year. Additional income or charges relating to these non-hedged contracts will occur in subsequent periods as a result of fluctuations in the exchange rate.

The risk of significant increases in interest payments due to changes in interest rates is mitigated by entering into interest rate and cross-currency interest rate swaps, which change the nature of the effective interest rates payable. At December 31, 2000, Canadian Pacific had entered into approximately $941 million of these swaps relating to long term debt as described in Note 13 on pages 85 to 88 of the 2000 Annual Report. The result of the interest rate swaps has been to convert $716 million of long term debt from fixed to floating interest rates. The total unrealized loss with respect to interest rate swaps at December 31, 2000 was $11 million.

Canadian Pacific is also exposed to changes in commodity prices as a result of the fluctuation in prices received for crude oil and natural gas production. Changes in crude oil prices are primarily hedged using NYMEX West Texas Intermediate futures contracts and changes in quality are hedged using over-the-counter (OTC) financial instruments. At December 31, 2000, Canadian Pacific had entered into contracts to fix the selling price on approximately 45,000 barrels per day of its Canadian crude oil production at an average WTI price of U.S.$28.06 per barrel and 8,000 barrels per day of its U.K. production at a Dated Brent price of U.S.$24.97 per barrel for the year 2001. In addition, Canadian Pacific has entered into futures contracts to purchase approximately 480,000 barrels

of crude oil for the year 2001 at prices ranging from U.S.$23.90 to U.S.$27.25 per barrel. Fluctuations in natural gas prices are hedged primarily through NYMEX natural gas futures contracts and OTC financial instruments. Canadian Pacific has sold forward natural gas production of 450 million cubic feet per day for the period of January to October 2001 at an average AECO equivalent price of $8.63 per thousand cubic feet. Approximately 55 million cubic feet per day has been sold forward relating to 2002 production at an average AECO equivalent price of $6.23 per thousand cubic feet. As at December 31, 2000, the unrealized loss related to commodity instruments was $102 million.

Canadian Pacific is exposed to credit losses in the event of non-performance by counterparties to financial instruments. Canadian Pacific mitigates this risk by contracting with counterparties of high credit quality and, in certain circumstances, through the requirement of credit insurance coverage. In addition, Canadian Pacific deals with an appropriate number of counterparties when entering financial instrument contracts, thereby reducing the risks that would result from concentration.

The long term debt balance at December 31, 2000 included $2,492 million of foreign currency long term debt (denominated principally in U.S. dollars) after giving effect to swap transactions (1999 – $2,240 million) and Canadian dollar debt of $1,965 million (1999 – $1,301 million). Annual maturities and sinking fund requirements, including those pertaining to capital leases, for each of the five years following 2000 are: 2001 – $426 million; 2002 – $172 million; 2003 – $489 million; 2004 – $113 million; and 2005 – $667 million.

At December 31, 2000, Canadian Pacific had commitments for capital expenditures amounting to $710 million. Also at December 31, 2000, minimum payments under operating leases and gas transportation agreements were estimated at $3,978 million, of which $906 million is payable during 2001.

LABOUR RELATIONS

As at December 31, 2000, Canadian Pacific Railway had national agreements in place with three of its seven Canadian labour organizations. Each of these agreements is in effect through to the end of 2002. The remaining four agreements expired at the end of 2000. Tentative settlements have been reached with two of the labour organizations, while negotiations with the remaining two bargaining units are ongoing. The current agreements provide for wage increases of 2% annually and contain improved health and vision plans, pension and life insurance benefits. Included in the agreements are work-rule changes designed to increase flexibility and reduce costs. Gainshare programs are in place for approximately 7,100 Canadian employees represented by five bargaining units.

In the U.S., Canadian Pacific Railway is party to collective agreements with 31 bargaining units on its subsidiary railways: 16 with the Soo Line Corporation (Soo Line), 14 with the Delaware and Hudson Railway Company (D&H), and one with the Eastern Network (EN). On the Soo Line, all 16 agreements were up for renegotiation. All but one of these bargaining units have served notice to begin negotiations. Negotiations are ongoing with three of the bargaining units; one has yet to begin initial discussions; and discussions are on hold with the remaining 11 pending resolution of national level negotiations. At December 31, 2000, the D&H had agreements in effect with seven of 14 bargaining units. Of these seven, six extend to the end of 2001 and one to the end of 2002. Among the seven outstanding, four expired in 1999 and three at the end of 2000. Negotiations are ongoing with the four bargaining units whose agreements expired at the end of 1999. Of the three agreements that expired at the end of 2000, notices to bargain have been served by two unions, while the remaining bargaining unit is in a position to serve notice at any time. Gainshare programs are in place for employees represented by nine of the 14 D&H unions. On the EN, an agreement with the union representing Detroit customs clerks expired at the end of 1999.

Fording is party to a number of collective agreements. Fording River is subject to a five-year collective agreement which expires in April 2001. In addition to a 3% increase in 2000, the agreement provides for an increase in pension benefits. The Coal Mountain operations are subject to a five-year collective agreement that was ratified in January 2000. The agreement provided for annual increases in base wage rates between 2% and 2.5% over the contract period. A five-year agreement with workers of Fording's Whitewood operations expired in September 2000. Negotiations are ongoing. NYCO Minerals' Willsboro operations are subject to a five-year agreement which expires in June 2001. The agreement provides for annual increases to the base wage rates of approximately 3%. The agreement also provides for an increase in health and pension benefits. A five-year agreement with workers of American Tripoli took effect July 1998. The agreement provides for annual increases to base wage rates of approximately 2.7%. Fording's Greenhills, Genesee, Mildred Lake and Minera NYCO Operations are all non-unionized.

Approximately 50% of the employees at Canadian Pacific's hotels and the managed hotels are members of collective bargaining units. These employees are represented by 20 unions, with a total of 61 bargaining units. The agreements with the various bargaining units have staggered expiry dates. In the summer of 2000, there was a four-week strike in Vancouver by the Greater Vancouver Hotel Employees Association which affected the Delta Vancouver Airport and the Delta Pacific Resort and Conference Centre. Negotiations were successfully concluded with 12 bargaining units during the year 2000. Ten contracts have expired and are either in negotiations or due to begin negotiations shortly, and the company anticipates that these will be settled in the first quarter of 2001. Collective agreements with seven bargaining units will expire in 2001.

At the Montreal Terminals, workers employed by the Maritime Employer's Association were subject to contracts that expired at the end of December 1997. Negotiations were completed during 2000, resulting in new contracts which expire at the end of December 2003.

As at December 31, 2000, PanCanadian had 2,055 employees, none of whom were subject to a collective agreement.

ENVIRONMENTAL MATTERS

The Corporation's operations are and will continue to be affected by federal, provincial, state and local laws and regulations regarding the protection of the environment. The Corporation's businesses have policies and procedures in place which support a comprehensive environmental management system that includes audits, legal compliance and reporting. It is not expected that the competitive positions of the Corporation's businesses will be adversely affected within their respective industries by changes to existing laws and regulations where all industry members are subject to the same legislative requirements.

Canadian Pacific Railway is committed to meeting or exceeding government environmental requirements applicable to its operations and activities. In the environmental area, the company complies with legislation and regulations that deal with waste and wastewater management, contaminated sites, spill reporting and emergency response, environmental assessment, storage tanks and other environmental matters.

Canadian Pacific Railway has had a comprehensive environmental management program in place since the early 1990s. As part of this program, based on comprehensive environmental investigations at various sites across Canada and the U.S., Canadian Pacific Railway recorded a $144 million pre-tax charge to earnings in 1995 to cover anticipated expenditures on environmental remediation programs to the year 2005. Sites were classified according to their known environmental condition as well as their past use and level of railway activity. Environmental liability needs were re-evaluated in 1999, resulting in increased expected remediation costs of $50 million before tax and the extension of the provision to cover the program until 2010. During 2000, approximately $32 million was spent on environmental projects relating to railway operations.

CP Ships has developed a comprehensive program to ensure that procedures for handling hazardous cargo are safe. An emergency response program is in place to deal with any ship or terminal-related incidents.

PanCanadian is participating in the federal government's Voluntary Challenge Program to reduce greenhouse gas emissions. Emission reductions over the past year were achieved in conjunction with planned capital spending and production optimization projects, thereby minimizing the fiscal impact. In the wake of the Kyoto Protocol and to ensure preparedness, PanCanadian will continue to closely monitor government emission reduction policy developments. A plan for preparedness is in place. Should the Kyoto Protocol be ratified and legislation be proposed, the time frame to meet emission reduction targets is expected to allow an opportunity for PanCanadian to respond. No extraordinary capital expenditures relating to environmental control for existing or new facilities are expected at this time.

At Fording, comprehensive environmental monitoring and mitigation programs ensure that mining activity has a minimal effect on the surrounding natural environment. Through extensive reclamation efforts at each of its operations, mined land is being effectively returned to productive and sustainable uses equal to or better than its pre-mined condition.

Canadian Pacific Hotels is continuing to monitor both its owned and managed properties to ensure that environmental issues are identified and corrected. Legacy Hotels also has environmental compliance programs in place. Such corrective action is not anticipated to be material. Phase I assessments have been conducted on the majority of the acquisitions in 2000, and programs are being put in place to deal with any environmental issues that the audits revealed. Such programs are in the normal course and are not anticipated to be material.

There are not expected to be significant expenditures relating to environmental control on existing or new facilities in the foreseeable future among the Corporation's other businesses.

LITIGATION

As to be expected during the normal course of business activity, the Corporation and its subsidiaries are occasionally involved in litigation incidental to their respective businesses. Management believes that the outcomes of such litigation will not be material to the Corporation.

Actions were initiated in late 1999 in Belgium against the Corporation and certain of its subsidiaries involved in the shipping operations, relating to the termination of contracts for stevedoring and related services. The Corporation and its subsidiaries evaluated the claims and are vigorously defending the actions. The Corporation and its subsidiaries do not believe that they will incur any liability in these actions and, accordingly, no provision has been made in their account with respect to this matter.

FORWARD-LOOKING INFORMATION

This Annual Report contains certain forward-looking statements within the meaning of the *Private Securities Litigation Reform Act of 1995* (United States) relating, but not limited, to Canadian Pacific's operations, anticipated financial performance, business prospects and strategies. Forward-looking information typically contains statements with words such as "anticipate," "believe," "expect," "plan" or similar words suggesting future outcomes. Much of this information appears under the caption "Management's Discussion and Analysis."

Readers are cautioned not to place undue reliance on forward-looking information. By its nature, Canadian Pacific's forward-looking information involves numerous assumptions, inherent risks and uncertainties both general and specific which contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. These factors include, but are not limited to, changes in business strategies; the strength of the Canadian economy in general; general global and economic and business conditions including the possibility of a slowdown in the United States economy and the economies of other countries in which Canadian Pacific conducts significant operations; the availability and price of energy commodities; the effects of competition and pricing pressures; industry overcapacity; shifts in market demands; changes in laws and regulations, including trade, fiscal, environmental and regulatory laws and the expiry of the moratorium on the mergers of U.S. railroads that is anticipated to occur in 2001; potential increases in maintenance and operating costs; uncertainties of litigation; labour disputes; timing of completion of capital or maintenance projects; currency and interest rate fluctuations; various events which could disrupt operations, including severe weather conditions; technological changes; and Canadian Pacific's anticipation of and success in managing the risks implicated by the foregoing.

Canadian Pacific cautions that the foregoing list of important factors is not exhaustive. Canadian Pacific undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise, or the foregoing list of factors affecting such information.

Management's Responsibility for Financial Reporting

The information in this Annual Report is the responsibility of management. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include some amounts based on management's best estimates and careful judgment.

Management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are authorized, recorded and reported properly. The internal audit department reviews these accounting controls on an ongoing basis and reports its findings and recommendations to management and the Audit Committee of the Board of Directors.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee, consisting of five members, all of whom are outside directors. This Committee reviews the consolidated financial statements with management and the independent auditors prior to submission to the Board for approval. It also reviews the recommendations of both the independent and internal auditors for improvements to internal controls as well as the actions of management to implement such recommendations.

M A Grandin

Michael A. Grandin
Executive Vice-President and
Chief Financial Officer

David P. O'Brien

David P. O'Brien
Chairman, President and
Chief Executive Officer

February 12, 2001

Auditors' Report

To the Shareholders of Canadian Pacific Limited

We have audited the consolidated balance sheets of Canadian Pacific Limited as at December 31, 2000 and 1999 and the statements of consolidated income, consolidated retained income and consolidated cash flow for each of the three years in the period ended December 31, 2000. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Canadian Pacific Limited as at December 31, 2000 and 1999 and the results of its operations and cash flows for each of the three years in the period ended December 31, 2000 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta

February 12, 2001

Statement of Consolidated Income

For the year ended December 31 *(in millions, except amounts per share)*	2000	1999	1998
Revenues	**$ 16,101.6**	$ 11,367.1	$ 10,151.0
Cost and expenses			
Cost of goods sold and services	**10,355.5**	7,479.0	6,432.1
Selling, general and administrative	**1,249.4**	1,560.2	1,193.2
Depreciation, depletion and amortization	**1,274.0**	1,082.3	1,050.1
	12,878.9	10,121.5	8,675.4
Operating income (Note 3)	**3,222.7**	1,245.6	1,475.6
Interest expense, net (Note 4)	**321.2**	274.6	250.7
Non-operating expense (income) (Note 5)	**123.2**	45.5	76.8
Income before income taxes, minority interest and goodwill charges	**2,778.3**	925.5	1,148.1
Income tax expense (recovery) (Note 6)	**814.6**	243.7	294.2
Minority interest share of income of subsidiaries	**151.9**	48.4	20.0
Income before goodwill charges	**1,811.8**	633.4	833.9
Goodwill charges, net of tax (Note 3)	**44.7**	39.5	32.6
Net income	**1,767.1**	593.9	801.3
Preferred dividends	**12.4**	10.4	–
Net income available to common shareholders	**$ 1,754.7**	$ 583.5	$ 801.3
Average number of common shares outstanding	**317.9**	331.5	335.8
Earnings per common share			
Income before goodwill charges	**$ 5.66**	$ 1.88	$ 2.48
Net income available to common shareholders	**$ 5.52**	$ 1.76	$ 2.39

Statement of Consolidated Retained Income

For the year ended December 31 *(in millions, except amounts per share)*	2000	1999	1998
Balance, January 1			
As previously reported	**$ 5,647.9**	$ 5,249.6	$ 4,629.1
Prior period adjustment (Note 2)	**49.2**	–	–
As restated	**5,697.1**	5,249.6	4,629.1
Net income	**1,767.1**	593.9	801.3
	7,464.2	5,843.5	5,430.4
Dividends:			
Preferred shares	**12.4**	10.4	–
Common shares (per share: 2000 – $0.56; 1999 – $0.56; 1998 – $0.54)	**177.4**	185.2	180.8
Total dividends	**189.8**	195.6	180.8
Balance, December 31	**$ 7,274.4**	$ 5,647.9	$ 5,249.6

See Notes to Consolidated Financial Statements.

Consolidated Cash Flow Statement

For the year ended December 31 *(in millions)*	2000	1999	1998
Operating Activities			
Net income	**$ 1,767.1**	$ 593.9	$ 801.3
Depreciation, depletion and amortization	**1,320.4**	1,123.2	1,084.0
Future income tax expense	**696.4**	167.1	158.5
Minority interest share of income of subsidiaries	**151.9**	48.4	20.0
Restructuring provision	**–**	472.2	–
Amortization of exchange losses	**11.3**	7.9	8.9
Gains from sales of businesses, investments and properties	**(3.2)**	(19.6)	(51.7)
Other	**(24.2)**	(42.5)	3.8
Cash flow	**3,919.7**	2,350.6	2,024.8
Restructuring payments	**(163.1)**	(140.3)	(116.5)
Other operating activities	**(262.7)**	10.9	(62.1)
Decrease (increase) in non-cash working capital balances (Note 7)	**(152.8)**	(401.7)	869.5
Cash from operations	**3,341.1**	1,819.5	2,715.7
Financing Activities			
Dividends paid to shareholders of the Corporation	**(191.6)**	(193.3)	(175.0)
Dividends paid to minority shareholders of subsidiaries	**(14.0)**	(13.5)	(13.9)
Issuance of commercial paper	**633.4**	110.6	853.3
Repayment of commercial paper	**(460.1)**	(239.5)	–
Issuance of long term debt	**1,052.9**	647.0	642.6
Repayment of long term debt	**(186.5)**	(475.6)	(225.7)
Issuance of shares by subsidiaries	**85.6**	122.5	1.0
Buy-back of shares by subsidiaries	**(7.9)**	–	–
Issuance of common shares by the Corporation	**18.0**	8.9	21.7
Buy-back of common shares by the Corporation (Note 16)	**(438.1)**	(222.9)	(324.7)
Issuance of preferred shares by the Corporation (Note 16)	**–**	213.4	–
	491.7	(42.4)	779.3
Investing Activities			
Business acquisitions and investments (Note 8)	**(1,263.0)**	(28.1)	(1,242.7)
Additions to properties (Note 3)	**(2,587.3)**	(1,976.7)	(2,337.1)
Sales of businesses, investments and properties	**305.6**	177.5	157.8
Other investing activities	**(175.5)**	–	53.5
	(3,720.2)	(1,827.3)	(3,368.5)
Cash Position*			
Increase (decrease) in cash	**112.6**	(50.2)	126.5
Cash at beginning of year	**520.7**	570.9	444.4
Cash at end of year	**$ 633.3**	$ 520.7	$ 570.9

* Cash comprises cash and temporary investments net of bank loans.

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

December 31 *(in millions)*	2000	1999
ASSETS		
Current Assets		
Cash and temporary investments	**$ 904.4**	$ 561.2
Accounts receivable	**2,480.7**	1,711.0
Inventories (Note 9)	**414.9**	473.1
	3,800.0	2,745.3
Investments (Note 10)	**395.5**	386.0
Properties, at Cost (Note 11)		
Transportation	**12,326.2**	11,700.3
Energy	**14,653.0**	12,272.3
Hotels and Real Estate	**1,819.5**	1,508.0
Other	**207.3**	198.7
	29,006.0	25,679.3
Less: Accumulated depreciation, depletion and amortization	**11,237.8**	10,301.8
	17,768.2	15,377.5
Other Assets and Deferred Charges (Note 12)	**2,202.1**	1,441.2
	$ 24,165.8	$ 19,950.0
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Bank loans	**$ 271.1**	$ 40.5
Commercial paper	**897.8**	724.5
Accounts payable and accrued liabilities	**3,179.3**	2,594.9
Income and other taxes payable	**202.7**	154.9
Dividends payable	**51.6**	53.4
Long term debt maturing within one year (Note 13)	**425.8**	50.0
	5,028.3	3,618.2
Deferred Liabilities (Note 14)	**1,355.7**	1,387.6
Long Term Debt (Note 13)	**4,031.6**	3,490.7
Future Income Taxes (Note 6)	**3,422.6**	2,599.5
Minority Shareholders' Interest in Subsidiary Companies (Note 15)	**772.1**	585.2
Shareholders' Equity (Note 16)		
Preferred shares	**220.0**	220.0
Common shares	**1,695.0**	1,746.3
Paid-in surplus	**227.5**	596.3
Foreign currency translation adjustments	**138.6**	58.3
Retained income	**7,274.4**	5,647.9
	9,555.5	8,268.8
Commitments and Contingencies (Note 19)		
	$ 24,165.8	$ 19,950.0

See Notes to Consolidated Financial Statements.

Approved on behalf of the Board:

D.P. O'Brien, Director

J.D. McNeil, Director

Note 1. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the accounts of Canadian Pacific Limited (the Corporation) and all of its subsidiaries (Canadian Pacific). All significant inter-company transactions and balances have been eliminated.

The principal companies included in each business activity are as follows:

December 31 *Percentage Ownership*	**2000**	1999	1998
Transportation			
Canadian Pacific Railway Company	**100.0%**	100.0%	100.0%
CP Ships	**100.0**	100.0	100.0
Energy			
PanCanadian Petroleum Limited	**85.6**	86.6	86.7
Fording Inc.	**100.0**	100.0	100.0
Hotels and Real Estate			
Canadian Pacific Hotels & Resorts Inc.	**100.0**	100.0	100.0

A significant part of Canadian Pacific's exploration, development, production and marketing of oil and gas is carried out as joint ventures and partnerships. These investments are accounted for through proportional consolidation.

The major differences between Canadian and United States generally accepted accounting principles, in so far as they apply to Canadian Pacific, are described under Supplementary Data.

Unless otherwise specified, all dollar amounts are expressed in Canadian dollars.

Revenue Recognition

Transportation: Railway freight revenues are recognized on the percentage of completed service. Revenues from shipping operations, costs directly attributable to loaded container movements and vessel costs are accounted for on the basis of voyages completed in the period.

Energy: Revenues from crude oil, natural gas and natural gas liquids are recognized at the time of product delivery. Coal sales revenues are recognized when the coal has been loaded and has departed the shipping locations. Industrial minerals sales revenues are recognized upon shipment from the plant.

Hotels: Revenues from hotel operations are recognized when services are provided and ultimate collection is reasonably assured.

Income Taxes

Effective January 1, 2000, Canadian Pacific adopted the liability method for providing for income taxes (Note 2a). Under this method, future tax assets and liabilities are recognized based on differences between the bases of assets and liabilities used for financial statement and income tax purposes, using substantively enacted tax rates. The effect of changes in income tax rates on future income tax assets and liabilities is recognized in the period that the change occurs.

Earnings per Common Share

Earnings per common share are calculated, after providing for dividends on the Corporation's preferred shares, using the weighted average number of common shares outstanding during the year.

Note 1. Significant Accounting Policies (continued)

Foreign Currency Translation

Foreign currency assets and liabilities of Canadian Pacific's operations, other than through self-sustained foreign subsidiaries, are translated into Canadian dollars at the year-end exchange rate for monetary items and at the historical exchange rates for non-monetary ones. Foreign currency revenues and expenses are translated at the exchange rate in effect on the dates of the related transactions except for provisions for depreciation and depletion which are translated on the same basis as the related assets. Foreign currency gains and losses are included in income immediately with the exception of unrealized gains and losses on long term monetary assets and liabilities, which are being amortized to income over the remaining lives of the related items.

The accounts of Canadian Pacific's self-sustained foreign subsidiaries are translated into Canadian dollars using the year-end exchange rate for assets and liabilities and the average exchange rates in effect for the year for revenues and expenses. Exchange gains or losses arising from translation are deferred and included under Shareholders' Equity as Foreign Currency Translation Adjustments. Also included as a foreign currency translation adjustment is the exchange credit arising from translation of Canadian Pacific Railway Company's (Canadian Pacific Railway) Perpetual 4% Consolidated Debenture Stock.

Employee Future Benefits

Effective January 1, 2000, Canadian Pacific adopted the new recommendations for accounting for employee future benefits (Note 2b). The costs of pensions and other post-retirement benefits (primarily health care and life insurance) are actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. Market related values are used for calculating the expected return on plan assets. The projected benefit obligation is discounted using a market interest rate at the beginning of the year on high quality corporate debt instruments.

Included in other benefits are costs for workers' compensation, as well as termination benefits recorded as part of restructuring charges.

Pension expense includes the cost of pension benefits earned during the current year, the interest cost on pension obligations, the expected return on pension plan assets, settlement gains, the amortization of the net transitional asset, the amortization of adjustments arising from pension plan amendments, and the amortization of the excess of the net actuarial gain or loss over 10% of the greater of the benefit obligation and the market related value of plan assets. The amortization period covers the expected average remaining service lives of employees covered by the various plans.

For defined contribution plans, pension costs generally equal plan contributions made during the current year.

Inventories

Rail materials and supplies are valued at the lower of average cost and replacement cost. Raw materials and finished goods are valued at the lower of average cost and net realizable value. Stores and materials are valued at cost, less an allowance for obsolescence.

Properties

Transportation: Fixed asset additions and major renewals are recorded at cost. When railway depreciable property is retired or otherwise disposed of in the normal course of business, the book value, less salvage, is charged to accumulated depreciation.

Depreciation is calculated on the straight-line basis at rates based upon the estimated service lives of depreciable property, except for rail and other track material in the United States which is based on usage.

Equipment under capital lease is included in properties and depreciated over the period of expected use.

Environmental remediation accruals for railway properties cover ten years of a site specific hydrocarbon remediation program and are recorded in accrued and deferred liabilities.

Note 1. Significant Accounting Policies (continued)

Estimated service lives used for principal categories of transportation properties are as follows:

	Years
Railway	
Diesel locomotives	28 to 32
Freight cars	23 to 47
Ties	35 to 45
Rails in first position	21 to 30
in other than first position	54
Computer system development costs	5 to 10
Ships	
Ships	25
Containers	12
Drydocking costs	2 to 5

Energy: Canadian Pacific follows the full cost method of accounting for oil and gas properties, whereby all costs relating to the exploration for, and the development of, crude oil and natural gas reserves are capitalized on a country-by-country cost centre basis. Costs accumulated within each cost centre are depleted and depreciated using the unit of production method, based on estimated proved reserves, with net production and reserves volumes of natural gas converted to equivalent energy units of crude oil. Proceeds from disposal of properties are normally deducted from the full cost pool without recognition of gain or loss.

Costs of exploration in new cost centres, together with related land costs, are excluded from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties, or if impairment has occurred.

In determining the depletion and depreciation provisions for crude oil and natural gas assets, Canadian Pacific includes any excess of the net book value of those oil and natural gas assets over the unescalated, undiscounted future net operating revenues from its proved oil and natural gas reserves for each cost centre (ceiling test). A second ceiling test calculation is conducted on an enterprise basis, by including in the depletion and depreciation provisions any excess of the net book value of oil and natural gas assets for all cost centres over the unescalated, undiscounted future net operating revenues from proved oil and natural gas reserves, less future general and administrative expenses, financing costs and income taxes. The ceiling test calculations utilize Canadian Pacific's weighted average product prices prevailing at year-end.

Depreciation of crude oil and natural gas plant, production and other equipment is provided for using the unit of production method. Natural gas liquids extraction facilities are depreciated on a straight-line basis over the estimated service lives of the assets.

Estimated future dismantlement and site restoration costs of conventional crude oil and natural gas assets are provided for using the unit of production method. Such costs for extraction facilities of natural gas liquids are provided for over the estimated service lives of the assets. Expenditures incurred to dismantle facilities and restore well sites are charged against the related restoration liability.

Land, buildings and equipment are recorded at cost. Expenditures to acquire, explore for and develop identified mineral properties are capitalized, net of costs relating to production during the development phase, pending evaluation and completion. Expenditures on general exploration for producing properties and abandoned properties are charged against income.

Depletion on producing mineral properties is provided for using a unit of production method based upon the proved mineral reserve position.

Estimated costs for the reclamation of mineral properties are provided for using the unit of production method.

Interest on funds borrowed to finance major energy projects is capitalized during the development and construction periods.

Note 1. Significant Accounting Policies (continued)

Hotels: Hotel properties are recorded at cost including interest capitalized during construction of new facilities and major renewals.

The sinking fund method of providing depreciation is used for buildings. This method will amortize the cost of the buildings over a maximum period of 40 years in a series of annual instalments increasing at the rate of 5% compounded annually.

Other Assets

Goodwill represents the excess of purchase price over fair value of identifiable assets acquired, and is amortized to income over the estimated periods of benefit which range from 10 to 40 years. Canadian Pacific evaluates the carrying value of goodwill for possible impairment on an annual basis. Goodwill is written down to fair value when declines in value are considered to be other than temporary based upon expected cash flows of the respective subsidiary.

Costs allocated to brand name and trademarks are amortized on a straight-line basis over 40 years. The recoverability of the unamortized costs of brand name and trademarks is evaluated on an annual basis to determine whether such costs will be recovered from future operations.

Financial Instruments

Derivative financial instruments are utilized by Canadian Pacific to manage its exposure to market risks relating to foreign currency exchange rates, interest rates and commodity prices. Unrealized gains and losses on derivative instruments used to convert the Canadian dollar principal of long term debt to United States dollars are amortized into income over the term of the related debt instrument. Unrealized gains and losses on derivative instruments, except those used as hedges, are recognized in income in the current period. Unrealized gains and losses on derivative instruments used as hedges are recognized in income in the period that the hedged exposure is recognized in income, which is the same period as the instrument is settled. The gain or loss is netted against the income or expense item which was hedged. Gains or losses realized on the termination of derivative instruments prior to their maturity are deferred and recognized in the period that the item which was hedged by the terminated instrument is recognized in income.

Stock Options

The Corporation has a stock-based compensation plan, as described in Note 17 Stock Options, which grants stock options and Stock Appreciation Rights (SARs) to certain key employees.

Compensation expense is not recognized for stock options. Any consideration paid by employees on the exercise of stock options is credited to share capital. In the event options are cancelled, no adjustment is made to share capital and no expense is recognized.

Compensation expense is recognized for exercisable SARs for the excess of the market value of a common share over the related option price.

Restructuring Charges

Restructuring costs are recorded in the year detailed exit and restructuring plans are approved. Provisions for restructuring costs are recorded in accrued and deferred liabilities. Certain components of the restructuring liability are recorded at their present value and the related discount is amortized over the payment period.

Note 2. Changes in Accounting Policies

a) Income Taxes

Effective January 1, 2000, the Corporation adopted, retroactively without restating prior years, the new recommendations of The Canadian Institute of Chartered Accountants (CICA) with respect to accounting for income taxes. The result was to increase other assets by $45.6 million, decrease future tax liabilities by $3.6 million and increase opening retained earnings by $49.2 million.

Under the new liability method, future tax assets and liabilities are determined based on reporting differences between the bases of assets and liabilities used for financial statement and for income tax purposes. Such differences are then measured using substantially enacted tax rates and laws that will be in effect when these differences are expected to reverse. Prior to the adoption of the new recommendations, income tax expense was determined using the deferral method of tax allocation.

b) Employee Future Benefits

Effective January 1, 2000, the Corporation adopted prospectively the new CICA recommendations for accounting for employee future benefits. The effect on current earnings from adopting these changes is immaterial.

Under the new recommendations, the Corporation's projected benefit obligation is discounted using a market interest rate at the beginning of the year on high quality corporate debt instruments. Previously, the discount rate used was based on management's best estimate of the long term rate of return on pension fund assets.

In addition, the Corporation provides post-retirement benefits other than pension which primarily include health care and life insurance benefits which are not covered under the Corporations' principal pension plans. The new recommendations require that these costs, based on the terms of the plan, be recognized on an accrual basis during the years the plan participants provide the services. Previously the cost of providing these benefits was expensed when paid.

Note 3. Segmented Information

Canadian Pacific has five reportable segments in three core business activities. The segments are Canadian Pacific Railway, CP Ships, PanCanadian Petroleum Limited (PanCanadian), Fording Inc. and Canadian Pacific Hotels & Resorts Inc. Canadian Pacific Railway provides rail and intermodal freight transportation services across Canada and into the U.S. midwest and northeast. CP Ships is a container shipping company operating in the North Atlantic, Latin America and Australasia. PanCanadian produces and markets crude oil, natural gas and natural gas liquids in Canada and internationally. Fording Inc. produces metallurgical coal for the international steel industry, thermal coal for electric utilities, and also produces wollastonite and tripoli. Canadian Pacific Hotels & Resorts Inc. operates, in Canada and internationally, full service hotels, some of which are owned.

The accounting policies of the segments are described in the summary of significant accounting policies. Canadian Pacific evaluates performance based on many factors, including net income or loss.

Canadian Pacific's reportable segments are distinct strategic business units that offer different products and services. They are managed separately because of the different operational and marketing strategies required for each segment. The segments are separate legal entities, with any acquisitions being integrated into the segment.

Note 3. Segmented Information (continued)

(in millions)		Revenues	Cost of Goods Sold and Services	Selling, General and Administrative	Depreciation, Depletion and Amortization	Operating Income
Transportation						
Canadian Pacific Railway	**2000**	**$ 3,655.1**	**$ 2,099.3**	**$ 405.9**	**$ 304.7**	**$ 845.2**
	1999	3,496.4	2,038.9	903.3	292.5	261.7
	1998	3,516.5	1,910.0	591.5	279.0	736.0
CP Ships	**2000**	**$ 3,919.0**	**$ 3,002.1**	**$ 576.5**	**$ 88.1**	**$ 252.3**
	1999	2,798.9	2,179.3	421.0	69.5	129.1
	1998	2,646.7	2,018.2	396.8	53.8	177.9
Total (after elimination of intra-activity charges*)	**2000**	**$ 7,400.2**	**$ 4,927.5**	**$ 982.4**	**$ 392.8**	**$ 1,097.5**
	1999	6,148.4	4,071.3	1,324.3	362.0	390.8
	1998	6,014.4	3,779.4	988.3	332.8	913.9
Energy						
PanCanadian Petroleum Limited	**2000**	**$ 7,215.9**	**$ 4,540.9**	**$ 124.6**	**$ 772.9**	**$ 1,777.5**
	1999	3,873.0	2,586.2	95.5	623.0	568.3
	1998	2,965.6	1,986.1	93.4	634.3	251.8
Fording Inc.	**2000**	**$ 896.1**	**$ 726.5**	**$ 12.4**	**$ 74.0**	**$ 83.2**
	1999	855.6	707.2	11.3	73.6	63.5
	1998	906.1	694.6	13.8	68.4	129.3
Total	**2000**	**$ 8,112.0**	**$ 5,267.4**	**$ 137.0**	**$ 846.9**	**$ 1,860.7**
	1999	4,728.6	3,293.4	106.8	696.6	631.8
	1998	3,871.7	2,680.7	107.2	702.7	381.1
Hotels and Real Estate						
Canadian Pacific Hotels & Resorts Inc.	**2000**	**$ 833.2**	**$ 404.4**	**$ 130.0**	**$ 34.3**	**$ 264.5**
	1999	749.2	373.4	129.1	23.7	223.0
	1998	549.5	256.6	97.7	14.6	180.6
Total of Segments (after elimination of inter-activity charges**)	**2000**	**$ 16,101.6**	**$ 10,355.5**	**$ 1,249.4**	**$ 1,274.0**	**$ 3,222.7**
	1999	11,367.1	7,479.0	1,560.2	1,082.3	1,245.6
	1998	10,151.0	6,432.1	1,193.2	1,050.1	1,475.6
Other						
Other activities	**2000**					
	1999					
	1998					
Consolidated Total (after inter-company eliminations)	**2000**	**$ 16,101.6**	**$ 10,355.5**	**$ 1,249.4**	**$ 1,274.0**	**$ 3,222.7**
	1999	11,367.1	7,479.0	1,560.2	1,082.3	1,245.6
	1998	10,151.0	6,432.1	1,193.2	1,050.1	1,475.6

* Charges between entities within the same core activity, or between entities in different core business activities are made at normal tariff or other arm's length rates. Charges between entities within the same business activity are eliminated in reporting revenues and expenses by business activity. Services provided by entities in the Transportation business activity to other entities in this activity yielded revenues in 2000 of $173.9 million (1999 – $146.9 million; 1998 – $148.8 million).

** Charges between entities in different business activities are not eliminated in reporting revenues and expenses by business activity but are eliminated in reporting total consolidated revenues and expenses. Consolidated net income is not affected by this practice. Services provided by the Transportation business activity to other business activities yielded revenues in 2000 of $243.8 million (1999 – $259.1 million; 1998 – $284.6 million).

Notes

Transportation:

- Included in selling, general and administrative expenses of Canadian Pacific Railway, in 1999, is a $500.6 million ($301.5 million after tax) provision, primarily for workforce reductions.

Interest Expense, Net	Non-Operating Expense (Income)	Income Tax Expense (Recovery)	Minority Interest	Goodwill Charges, Net of Tax	Net Income (Loss)	Segment Assets	Additions to Properties
$ 167.0	**$ 23.1**	**$ 122.8**	**$ –**	**$ –**	**$ 532.3**	**$ 8,758.4**	**$ 571.2**
136.6	26.2	37.0	–	–	61.9	8,275.7	843.0
118.5	18.4	231.7	–	–	367.4	7,843.7	1,102.3
$ (0.1)	**$ 3.3**	**$ 16.2**	**$ (0.8)**	**$ 27.2**	**$ 206.5**	**$ 2,608.5**	**$ 366.2**
6.6	0.4	17.0	(2.4)	22.3	85.2	1,774.9	126.7
(0.7)	0.4	10.4	–	16.5	151.3	1,803.4	125.3
$ 166.9	**$ 26.4**	**$ 139.0**	**$ (0.8)**	**$ 27.2**	**$ 738.8**	**$ 11,366.9**	**$ 937.4**
143.2	26.6	54.0	(2.4)	22.3	147.1	10,050.6	969.7
117.8	18.8	242.1	–	16.5	518.7	9,647.1	1,227.6
$ 75.6	**$ 3.7**	**$ 657.7**	**$ 146.3**	**$ 14.6**	**$ 879.6**	**$ 8,976.1**	**$ 1,468.6**
81.3	1.4	134.0	49.9	14.5	287.2	6,430.8	844.2
99.5	(15.5)	16.7	20.0	14.5	116.6	6,120.1	893.6
$ 14.6	**$ 0.5**	**$ 34.7**	**$ –**	**$ –**	**$ 33.4**	**$ 1,004.2**	**$ 39.1**
15.9	0.5	20.2	–	–	26.9	1,073.6	38.2
20.4	0.1	42.8	–	0.1	65.9	1,170.3	68.5
$ 90.2	**$ 4.2**	**$ 692.4**	**$ 146.3**	**$ 14.6**	**$ 913.0**	**$ 9,980.3**	**$ 1,507.7**
97.2	1.9	154.2	49.9	14.5	314.1	7,504.4	882.4
119.9	(15.4)	59.5	20.0	14.6	182.5	7,290.4	962.1
$ 44.1	**$ –**	**$ 58.5**	**$ 6.4**	**$ 2.9**	**$ 152.6**	**$ 2,461.5**	**$ 131.8**
46.3	–	54.6	0.9	2.7	118.5	1,913.2	122.7
32.2	0.3	48.0	–	1.5	98.6	1,944.7	117.0
$ 301.2	**$ 30.6**	**$ 889.9**	**$ 151.9**	**$ 44.7**	**$ 1,804.4**	**$ 23,808.7**	**$ 2,576.9**
286.7	28.5	262.8	48.4	39.5	579.7	19,468.2	1,974.8
269.9	3.7	349.6	20.0	32.6	799.8	18,882.2	2,306.7
$ 20.0	**$ 92.6**	**$ (75.3)**	**$ –**	**$ –**	**$ (37.3)**	**$ 1,939.9**	**$ 10.4**
(12.1)	17.0	(19.1)	–	–	14.2	2,188.4	1.9
(19.2)	73.1	(55.4)	–	–	1.5	2,042.1	30.4
$ 321.2	**$ 123.2**	**$ 814.6**	**$ 151.9**	**$ 44.7**	**$ 1,767.1**	**$ 24,165.8**	**$ 2,587.3**
274.6	45.5	243.7	48.4	39.5	593.9	19,950.0	1,976.7
250.7	76.8	294.2	20.0	32.6	801.3	19,206.3	2,337.1

Hotels and Real Estate:

- Included in revenues of Canadian Pacific Hotels & Resorts Inc., in 2000, is $9.2 million ($9.2 million after tax) relating to real estate activities. In 1998, revenues for real estate activities were $31 million ($17 million after tax).

Other:

- Included in non-operating items of other activities, in 2000, is $19 million ($10 million after tax) for foreign exchange losses, in 1999, is $27 million ($15 million after tax) income for foreign exchange gains and a $7 million ($4 million after tax) reversal of the 1997 provision for information technology costs to offset charges taken in the five reportable segments and, in 1998, is a $70 million ($39 million after tax) provision for foreign exchange losses and $47 million ($26 million after tax) reversal of the 1997 provision for information technology costs.

Note 3. Segmented Information (continued)

Geographic Information

(in millions)	2000	1999	1998
Canada			
Revenues			
Domestic	**$ 5,355.9**	$ 3,865.1	$ 3,611.0
Export	**2,640.3**	1,973.0	1,823.7
Inter-company revenues	**(417.7)**	(406.0)	(400.1)
	$ 7,578.5	$ 5,432.1	$ 5,034.6
Operating income	**$ 2,702.4**	$ 1,130.3	$ 1,204.1
Total assets	**$ 16,089.5**	$ 13,952.9	$ 13,552.7
United States			
Revenues	**$ 5,481.0**	$ 3,879.0	$ 3,444.1
Operating income	**$ 297.7**	$ 64.0	$ 167.7
Total assets	**$ 4,650.7**	$ 3,723.1	$ 3,370.4
Other Countries			
Revenues	**$ 3,042.1**	$ 2,056.0	$ 1,672.3
Operating income	**$ 222.6**	$ 51.3	$ 103.8
Total assets	**$ 3,425.6**	$ 2,274.0	$ 2,283.2
Summary			
Revenues	**$ 16,101.6**	$ 11,367.1	$ 10,151.0
Operating income	**$ 3,222.7**	$ 1,245.6	$ 1,475.6
Total assets	**$ 24,165.8**	$ 19,950.0	$ 19,206.3

Note 4. Interest Expense, Net

(in millions)	2000	1999	1998
Long term debt and debenture stock	**$ 314.8**	$ 280.5	$ 270.4
Short term debt	**57.7**	33.8	29.3
	372.5	314.3	299.7
Less: Interest income	**51.4**	39.7	49.0
	$ 321.1	$ 274.6	$ 250.7

Note 5. Non-operating Expense (Income)

(in millions)	2000	1999	1998
Reversal of information technology costs accrual	**$ –**	$ (7.0)	$ (47.0)
Amortization of exchange losses	**11.3**	7.9	8.9
Other exchange losses (gains)	**2.1**	(23.5)	47.5
Amortization of the discount of the present value of the restructuring charges	**21.6**	11.8	21.1
Other	**88.2**	56.3	46.3
	$ 123.2	$ 45.5	$ 76.8

Note 6. Income Tax Expense

(in millions)	2000	1999	1998
Canadian			
Current income tax expense	**$ 99.6**	$ 59.1	$ 119.5
Future income tax expense (benefit) relating to:			
Origination and reversal of temporary differences	**767.0**	248.6	272.5
Reduction in tax rates	**(143.4)**	–	–
	$ 723.3	$ 248.6	$ 272.5
Foreign			
Current income tax expense	**$ 18.6**	$ 17.5	$ 16.2
Future income tax expense (benefit) relating to:			
Origination and reversal of temporary differences	**71.8**	(4.9)	21.7
Increase in tax rates	**0.9**	–	–
	$ 91.3	$ (4.9)	$ 21.7
Total			
Current	**$ 118.2**	$ 76.6	$ 135.7
Future	**696.4**	167.1	158.5
	$ 814.6	$ 243.7	$ 294.2

The difference between the income tax expense and the provision obtained by applying the statutory tax rate is as follows:

Provision at Canadian statutory rates	**$ 1,235.8**	$ 408.9	$ 514.5
Depletion and resource allowances	**(251.7)**	(123.4)	(80.2)
Foreign tax rate differentials	**(108.1)**	(25.5)	(101.8)
Royalties and mineral reserve tax	**110.9**	59.0	44.1
Losses (gains) not tax affected	**(41.8)**	(16.8)	4.5
Previously unrecognized loss carryforwards utilized	**(7.0)**	(26.7)	(15.6)
Large corporation tax	**30.2**	24.1	22.7
Reduction in tax rates	**(142.5)**	–	–
Other, including tax reassessments and provisions	**(11.2)**	(55.9)	(94.0)
Income tax expense	**$ 814.6**	$ 243.7	$ 294.2

At December 31, 2000, the temporary differences comprising the future income tax liability in the Consolidated Balance Sheet are as follows:

(in millions)	2000
Income tax losses	**$ (517.4)**
Future site restoration provisions	**(97.8)**
Restructuring accruals	**(251.0)**
Partnership temporary differences	**266.5**
Petroleum and natural gas properties	**1,505.5**
Depreciable capital assets	**2,368.0**
Deductible prepaid expenses	**126.2**
Other	**22.6**
Future income taxes	**$ 3,422.6**

As at December 31, 2000, Canadian Pacific has non-capital and net operating losses available to reduce future taxable income in the amount of $1,343 million (Canada – $705 million, United States – $455 million, other countries – $183 million).

Note 7. Changes in Non-cash Working Capital Balances

(in millions)	**2000**	1999	1998
(Increase) decrease in current assets:			
Accounts receivable	**$ (769.7)**	$ (165.6)	$ 37.9
Instalment receipts	**–**	–	632.0
Inventories	**58.2**	5.1	(76.0)
Increase (decrease) in current liabilities:			
Accounts payable and accrued liabilities	**584.4**	(233.2)	204.3
Income and other taxes payable	**47.8**	18.1	(20.7)
	(79.3)	(375.6)	777.5
Decrease in non-cash working capital balances relating to reduction in restructuring accruals	**148.4**	111.7	95.8
Increase in non-cash working capital balances from the acquisition and sale of businesses and joint ventures	**(79.5)**	(63.1)	(13.3)
Other changes in non-cash working capital balances (mainly reclassifications from/to current assets/liabilities to/from long term assets/liabilities)	**(142.4)**	(74.7)	9.5
Decrease (increase) in non-cash working capital balances	**$ (152.8)**	$ (401.7)	$ 869.5

Note 8. Business Acquisitions and Investments

Expenditures on business acquisitions and investments comprise the following:

(in millions)	**2000**	1999	1998
Montana Power assets	**$ 689.3**	$ –	$ –
Scott/Telford	**259.3**	–	–
Chateau Whistler	**142.3**	–	–
Shipping companies and other	**172.1**	28.1	284.6
Princess Hotels	**–**	–	865.2
Delta Hotels	**–**	–	92.9
	$ 1,263.0	$ 28.1	$ 1,242.7

Effective January 6, 2000, Canadian Pacific acquired interests in the Scott/Telford operations in the United Kingdom Central North Sea. The acquisition cost was $259.3 million, which represented Canadian Pacific's share of certain net assets of the operations. On October 31, 2000, Canadian Pacific acquired the oil and gas assets of Montana Power Company for a purchase price of $689.3 million. The results of these acquisitions have been included in the Energy business activity, under PanCanadian, from the dates of acquisition.

Effective December 1, 2000, Canadian Pacific purchased its partner's 80% ownership interest in The Fairmont Chateau Whistler. The acquisition cost was $142.3 million. The results of Chateau Whistler have been included in the Hotels and Real Estate business activity, under Canadian Pacific Hotels & Resorts Inc., from the date of acquisition.

Effective January 1, 2000, Canadian Pacific purchased the remaining 50% interest in Americana Ships and on August 31, 2000, acquired the net assets of Christensen Canadian African Line. The acquisition costs of these businesses and other minor acquisitions amounted to $172.1 million. The excess of cost over fair value amounting to $102.7 million has been allocated to goodwill and is being amortized over 35 years. The total cost of shipping acquisitions was $106.2 million, the results of which have been included in the Transportation business activity, under CP Ships, from the dates of acquisition.

Note 8. Business Acquisitions and Investments (continued)

The acquisitions in 2000 have been accounted for as follows:

(in millions)	Montana Power	Scott/ Telford	Chateau Whistler	Shipping and Other	Total
Assets acquired:					
Net current assets	$ 90.3	$ 3.9	$ –	$ 181.6	$ 275.8
Investments	–	–	–	65.0	65.0
Net properties	790.1	283.6	142.3	33.2	1,249.2
Goodwill	–	–	–	102.7	102.7
Other long term assets	77.3	–	–	–	77.3
Liabilities acquired:					
Net current liabilities	(156.2)	–	–	(210.4)	(366.6)
Deferred liabilities	(21.5)	–	–	–	(21.5)
Future income taxes	(90.7)	(28.2)	–	–	(118.9)
Total acquisition cost	$ 689.3	$ 259.3	$ 142.3	$ 172.1	$ 1,263.0

Effective November 1, 1998, Canadian Pacific acquired the trade and certain net assets of Australia New Zealand Direct Line and on May 20, 1998 acquired the trade and certain net assets of Ivaran Lines. The total acquisition cost of these two container shipping businesses and other minor acquisitions amounted to $284.6 million. The excess of total cost over fair value, which includes restructuring and other costs, amounted to $227 million. It has been allocated to goodwill and is being amortized over 35 years. The results of the shipping acquisitions have been included in the Transportation business activity, under CP Ships, from the dates of acquisition.

On August 5, 1998, Canadian Pacific acquired for $865.2 million seven Princess resort properties of which five are 100% owned and two are 49% owned. The excess of total cost over fair value amounting to $77.4 million has been allocated to goodwill and is being amortized over 40 years. The results of Princess have been included in the Hotels and Real Estate business activity, under Canadian Pacific Hotels & Resorts Inc., from the date of acquisition.

On May 7, 1998, Canadian Pacific acquired Delta Hotels which manages, franchises and licences 31 properties. The total acquisition cost was $92.9 million, and included the management company, the "Delta Hotels" brand and three leasehold hotels. The excess of total cost over fair value amounting to $43.6 million has been allocated to goodwill and is being amortized over 40 years. The results of Delta have been included in the Hotels and Real Estate business activity, under Canadian Pacific Hotels & Resorts Inc., from the date of acquisition.

The 1998 acquisitions have been accounted for as follows:

(in millions)	Princess	Delta	Shipping and Other	Total
Assets acquired:				
Net current assets	$ 6.0	$ –	$ –	$ 6.0
Investments	16.8	–	71.9	88.7
Net properties	765.0	22.2	42.0	829.2
Goodwill	77.4	43.6	227.0	348.0
Other long term assets	–	34.0	–	34.0
Liabilities acquired:				
Net current liabilities	–	(6.9)	(29.3)	(36.2)
Long term debt	–	–	(27.0)	(27.0)
Total acquisition cost	$ 865.2	$ 92.9	$ 284.6	$ 1,242.7

Note 9. Inventories

(in millions)	2000	1999
Rail materials and supplies	$ 131.0	$ 176.1
Raw materials and work in progress	40.6	39.0
Finished goods	157.5	176.2
Stores and materials	85.8	81.8
	$ 414.9	$ 473.1

Note 10. Investments

(in millions)	2000	1999
Accounted for on the equity basis:		
Legacy Hotels Real Estate Investment Trust	$ 157.5	$ 121.4
Hotel partnerships	79.0	89.5
Rail investments	65.8	91.2
Other	5.4	5.4
Accounted for on the cost basis	87.8	78.5
	$ 395.5	$ 386.0

Note 11. Properties and Accumulated Depreciation, Depletion and Amortization

	2000			1999
(in millions)	Cost	Accumulated Depreciation, Depletion and Amortization	Net	Net
Transportation				
Canadian Pacific Railway	$ 11,323.8	$ 3,949.8	$ 7,374.0	$ 7,060.7
CP Ships	1,002.4	315.3	687.1	508.1
	12,326.2	4,265.1	8,061.1	7,568.8
Energy				
PanCanadian Petroleum Limited	13,230.4	6,099.9	7,130.5	5,494.2
Fording Inc.	1,422.6	621.4	801.2	829.9
	14,653.0	6,721.3	7,931.7	6,324.1
Hotels and Real Estate				
Canadian Pacific Hotels & Resorts Inc.	1,819.5	242.0	1,577.5	1,293.0
Other	207.3	9.4	197.9	191.6
	$ 29,006.0	$ 11,237.8	$ 17,768.2	$ 15,377.5

Note 12. Other Assets and Deferred Charges

(in millions)	2000	1999
Unamortized exchange loss	$ 199.3	$ 149.2
Goodwill	968.0	812.7
Prepaid pension cost	266.4	176.7
Brand name and trademarks	106.4	45.9
Long term receivables and deposits	277.6	52.4
Unamortized discount on long term debt and issue costs	25.6	25.3
Systems development	27.3	32.2
Management and marketing contracts	144.4	75.3
Deferred charges and other	187.1	71.5
	$ 2,202.1	$ 1,441.2

Note 13. Long Term Debt

(in millions)	2000	1999
Canadian Pacific Railway Company		
6.875% – 9.45% Debentures due 2003 – 2022	$ 1,132.5	$ 1,102.5
7.20% medium term notes due 2005	250.0	–
Perpetual 4% Consolidated Debenture Stock	61.3	60.7
6.91% Secured Equipment Notes due 2005 – 2024	235.0	235.0
7.49% Equipment Trust Certificates due 2005 – 2021	181.2	–
Secured Equipment Loan due 2001 – 2015	165.0	–
Obligations under capital leases due 2001 – 2014	253.0	247.1
CP Ships		
Obligations under capital leases due 2001 – 2008	48.0	64.1
PanCanadian Petroleum Limited		
5.5% – 8.4% medium term notes due 2001 – 2008	825.0	813.7
8.75% Debentures due 2005	200.0	200.0
Commercial paper	–	60.0
Bank loans	37.3	37.2
Canadian Pacific Hotels & Resorts Inc.		
Bank loans	114.3	88.8
Canadian Pacific Limited		
10.5% Debentures due 2001	250.0	250.0
5.85% – 6.90% medium term notes due 2005 – 2009	700.0	350.0
Canadian Pacific Securities Limited		
11.6% Guaranteed Debentures due 2026	3.1	29.5
Other	1.7	2.1
	4,457.4	3,540.7
Less: Long term debt maturing within one year	425.8	50.0
	$ 4,031.6	$ 3,490.7

The Corporation's debentures and medium term notes and Canadian Pacific Railway's debentures are unsecured, but carry a negative pledge. U.S.$250 million of Canadian Pacific Railway's debentures are callable starting in 2002 at a premium which declines over time.

Note 13. Long Term Debt (continued)

Canadian Pacific Railway, through a number of interest rate swaps, converted U.S.$100 million of its long term debt with a fixed interest rate of 7.68% into a floating interest rate based on U.S. LIBOR and $40.8 million of its long term debt with fixed interest rates from 7.93% to 8.10% into floating based on Bankers' Acceptance rates.

Canadian Pacific Railway's Perpetual 4% Consolidated Debenture Stock constitutes a first charge upon and over the whole of the undertaking, railways, works, rolling stock, plant, property and effects of Canadian Pacific Railway, with certain exceptions.

Canadian Pacific Railway's Secured Equipment Notes are full recourse obligations secured by a first charge on specific units of railway rolling stock.

Canadian Pacific Railway's Equipment Trust Certificates are full recourse obligations secured by a first charge on specific locomotive units.

Canadian Pacific Railway's Secured Equipment Loan is secured by specific locomotive units. The interest rate is floating and is calculated based on a six-month average CDOR plus 53 basis points.

Canadian Pacific Railway's obligations under capital leases have implicit interest rates which vary from 6.85% to 7.63% and CP Ships' obligations under capital leases have implicit interest rates which vary from 3% to 13%.

With respect to U.S.$100 million of PanCanadian's medium term notes with a fixed interest rate of 7.645%, interest rate swap and option transactions have been entered into resulting in an effective interest rate of 6.48%. PanCanadian has entered into interest rate swap and option transactions with respect to $100 million medium term notes with a fixed rate of 5.5% converting the notes into U.S.$71 million with an effective interest rate of U.S. three-month LIBOR minus 68 basis points. PanCanadian, through a series of interest rate and cross-currency interest rate swaps, converted another $100 million of medium term notes with a fixed interest rate of 8.4% into U.S.$73.1 million with an effective interest rate of U.S. three-month LIBOR minus 41 basis points, and converted a further $100 million of medium term notes with a fixed interest rate of 7.5% into U.S.$73 million with an effective rate of U.S. three-month LIBOR minus 99 basis points. In addition, PanCanadian converted $225 million with a fixed interest rate of 5.8% and entered into a series of interest rate and cross-currency interest rate swap transactions. The swap transactions converted the $225 million medium term notes into U.S.$71 million and $125 million with effective interest rates of U.S. three-month LIBOR minus 52 basis points and three-month Bankers' Acceptance rates minus 5 basis points, respectively.

PanCanadian's debentures and medium term notes are unsecured, but carry a negative pledge.

At December 31, 2000, the long term debt balance included $2,492 million of foreign currency debt after giving effect to swap transactions. The foreign currency debt was denominated principally in U.S. dollars.

Annual maturities and sinking fund requirements, excluding those pertaining to capital leases, for each of the five years following 2000 are: 2001 – $408.4 million; 2002 – $155.4 million; 2003 – $483.2 million; 2004 – $106 million; 2005 – $664.6 million.

At December 31, 2000, capital lease obligations included in long term debt above were as follows:

(in millions)	
2001	$ 40.9
2002	35.6
2003	26.4
2004	26.4
2005	21.7
Thereafter	398.9
Total minimum lease payments	549.9
Less: Imputed interest	(248.9)
Present value of minimum lease payments	301.0
Less: Current portion	(17.3)
Long term portion of capital lease obligations	$ 283.7

In addition to the financial instruments associated with the long term debt referred to above, the Corporation and a number of its subsidiaries are parties with major financial institutions to other financial instruments with off-balance sheet risk as discussed below.

Note 13. Long Term Debt (continued)

Commodity Instruments

Changes in oil prices are primarily hedged using New York Mercantile Exchange's (NYMEX) West Texas Intermediate (WTI) futures contracts and fluctuating differentials for crude oil quality are hedged using over-the-counter (OTC) financial instruments. As at December 31, 2000, Canadian Pacific has entered into transactions to fix the selling price on 45,000 barrels per day of its Canadian crude oil production for the year 2001 at an average WTI price of U.S.$28.06 per barrel. Transactions have also been entered into to fix the selling price on 8,000 barrels per day of 2001 production from the Scott and Telford fields at an average Dated Brent price of U.S.$24.97 per barrel. In addition, Canadian Pacific has entered into futures contracts to purchase approximately 480,000 barrels of crude oil for the year 2001 at prices ranging from U.S.$23.90 to U.S.$27.25 per barrel.

Exposure to changing natural gas prices is hedged primarily through NYMEX natural gas futures contracts and OTC financial instruments. At December 31, 2000, Canadian Pacific has sold forward natural gas production of 450 million cubic feet per day for the period of January to October 2001 at an average AECO equivalent price of $8.63 per thousand cubic feet and approximately 55 million cubic feet per day related to production in 2002 at an average AECO equivalent price of $6.23 per thousand cubic feet.

As at December 31, 2000, the unrealized loss related to commodity instruments was $102.3 million.

Forward Foreign Currency Exchange Contracts

Exposure to changes in the Cdn./U.S. dollar exchange rate on future commodity revenue streams and long term debt denominated in U.S. dollars is managed by selling or purchasing forward U.S. dollars at fixed rates in future periods. As at December 31, 2000, Canadian Pacific had entered into foreign exchange contracts to sell approximately U.S.$3,524.6 million at rates ranging from 1.31 to 1.51 over the years 2001 to 2005. As at December 31, 2000, the unrealized loss on forward foreign currency exchange contracts not recognized in income was $295.6 million.

Credit Risk Management

Canadian Pacific is exposed to credit losses in the event of non-performance by counterparties to financial instruments including interest rate swaps on certain inter-company debt. Canadian Pacific mitigates this risk by contracting with counterparties of high credit quality and, in certain circumstances, through the requirement of credit insurance coverage. In addition, Canadian Pacific deals with an appropriate number of counterparties when entering financial instrument contracts, thereby reducing the risks that would result from concentration.

Interest Rate Exposure and Fair Values

Canadian Pacific's exposure to interest rate risk along with the total carrying amounts and fair values of its financial instruments are summarized in the following table:

		Fixed Interest Rate Maturing In:					
(in millions)	Floating Interest Rate	Less Than One Year	One to Five Years	More Than Five Years	Non-interest Bearing	Total Carrying Value	Fair Value
Financial Assets							
Cash and short term investments	$ 904.4	$ –	$ –	$ –	$ –	$ 904.4	$ 904.4
Accounts receivable	–	–	–	–	2,480.7	2,480.7	2,480.7
Other assets	–	–	77.0	–	200.6	277.6	277.6
Financial Liabilities							
Bank loans	(271.1)	–	–	–	–	(271.1)	(271.1)
Commercial paper	(897.8)	–	–	–	–	(897.8)	(897.8)
Accounts and other payables	–	–	–	–	(3,433.6)	(3,433.6)	(3,433.6)
Long term debt	(202.3)	(423.5)	(1,459.1)	(2,372.5) (1)	–	(4,457.4)	(4,528.2)
Derivative Instruments							
Interest rate swaps on long term debt	(715.8)	–	390.8	325.0 (2)	–	–	(10.8)
Forward foreign currency contracts	–	–	–	–	–	–	(295.6)
Commodity instruments	–	–	–	–	–	–	(102.3)

(1) Includes $61.3 million of Perpetual 4% Consolidated Debenture Stock with no maturity date.

(2) Interest rate swaps totaling $325 million, for debt maturing in more than five years, expire as follows: 2006 – $100 million; 2008 – $225 million.

Note 13. Long Term Debt (continued)

For 1999, the fair value of short term financial assets and liabilities was estimated to equal the carrying value on the Balance Sheet. The fair values for 1999 of long term debt, interest rate swaps, forward foreign currency contracts and commodity instruments were $3,581.6 million, $(30.1) million, $(136.4) million and $2.4 million, respectively.

Canadian Pacific has determined the estimated fair value of its financial instruments based on appropriate valuation methodologies. However, considerable judgment is necessary to develop these estimates. Accordingly, the estimates presented herein are not necessarily indicative of what Canadian Pacific could realize in a current market exchange. The use of different assumptions or methodologies may have a material effect on the estimated fair value amounts.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

- Short term financial assets and liabilities are valued at their carrying amounts as presented in the Balance Sheet, which are reasonable estimates of fair value due to the relatively short period to maturity of these instruments.
- The fair value of publicly traded long term debt is determined based upon market prices at December 31, 2000. The fair value of other long term debt is estimated based on rates currently available to Canadian Pacific for long term borrowing with similar terms and conditions to those borrowings in place at the balance sheet date.
- The fair value of derivative instruments is estimated as the discounted unrecognized gain or loss calculated based on market prices or rates at December 31, 2000, which generally reflects the estimated amounts that Canadian Pacific would receive or pay to terminate the contracts at the balance sheet date.

Note 14. Deferred Liabilities

(in millions)	**2000**	1999
Provision for restructuring costs	**$ 423.5**	$ 513.1
Future removal and site restoration costs	**356.6**	342.6
Accrued pension costs and post-retirement benefits	**98.5**	68.8
Deferred workers' compensation	**82.1**	62.9
Deferred hedging amounts	**7.3**	30.9
Foreign exchange hedges	**66.4**	55.9
Deferred revenue	**51.2**	47.3
Unrealized loss on forward exchange contracts	**94.8**	121.5
Other	**175.3**	144.6
	$ 1,355.7	$ 1,387.6

Note 15. Minority Shareholders' Interest in Subsidiary Companies

(in millions)	**2000**	1999
PanCanadian Petroleum Limited	**$ 685.0**	$ 511.6
Canadian Pacific Hotels & Resorts Inc.	**72.1**	65.6
CP Ships	**13.6**	6.6
Other	**1.4**	1.4
	$ 772.1	$ 585.2

Note 16. Shareholders' Equity

The Corporation's articles authorize for issuance an unlimited number of common shares and an unlimited number of first preferred shares and second preferred shares.

On March 31, 1999, the Corporation completed the issue of 8.8 million 5.65% Cumulative Redeemable First Preferred Shares, Series A for $220 million. The holders of the preferred shares are entitled to a fixed annual dividend of $1.4125 per share payable quarterly.

Note 16. Shareholders' Equity (continued)

An analysis of common share balances is as follows:

(in millions)	2000 Number	2000 Amount	1999 Number	1999 Amount	1998 Number	1998 Amount
Balance, January 1	**326.3**	**$ 1,746.3**	332.7	$ 1,770.2	340.7	$ 1,794.4
New issue	**–**	**–**	–	–	0.3	8.0
Issued under dividend reinvestment and share purchase, and stock option plans	**0.6**	**18.0**	0.3	9.1	0.5	13.7
Share repurchase plans	**(12.9)**	**(69.3)**	(6.7)	(33.0)	(8.8)	(45.9)
Balance, December 31	**314.0**	**$ 1,695.0**	326.3	$ 1,746.3	332.7	$ 1,770.2

The Corporation has a Dividend Reinvestment and Share Purchase Plan which permits participants to acquire additional common shares of the Corporation by reinvesting cash dividends paid on common shares held by them and/or by investing optional cash payments, to a maximum of $30,000 in any calendar year.

In July 1996, the Corporation announced a program to repurchase, in a 12 month period, up to 10 million of its common shares, representing about 3% of its then outstanding common shares. This program has been continued through 2000. In August 2000, the Corporation increased the number of shares it could repurchase under the current program to 15.7 million or approximately 5% of its then outstanding common shares. In 2000, 1999 and 1998, 12.9 million, 6.7 million and 8.8 million shares were repurchased for $438.1 million, $222.9 million and $324.7 million, respectively. Of the cost, $69.3 million, $33 million and $45.9 million was charged to common shares, while $368.8 million, $189.9 million and $278.8 million was charged to Paid-in Surplus for 2000, 1999 and 1998, respectively.

The amounts and timing of repurchases are at the Corporation's discretion and, under the current program, can be made until August 18, 2001 at prevailing market prices on the Toronto and New York stock exchanges.

Foreign Currency Translation Adjustments

An analysis of the Foreign Currency Translation Adjustments balance is as follows:

(in millions)	2000	1999	1998
Balance, January 1	**$ 58.3**	$ 187.0	$ 77.0
Effect of exchange rate changes	**80.3**	(128.7)	110.0
Balance, December 31	**$ 138.6**	$ 58.3	$ 187.0

Note 17. Stock Options

Under the Corporation's stock option plan, options may be granted to certain key employees to purchase common shares of the Corporation at a price not less than the market value of the shares at the grant date. Each option may be exercised after two years in respect of one-half of the number of shares to which it relates and after three years in respect of the balance. Options expire 10 years after the grant date.

Simultaneously, with the grant of an option, employees are also granted Share Appreciation Rights (SARs) equivalent to one-half the number of shares attached to an option. A SAR entitles the holder to receive payment of an amount equal to the excess of the market value of a common share at the exercise date of the SAR over the related option price. SARs may be exercised no earlier than three years and no later than 10 years after the grant date.

Where an option has been exercised as to one-half the number of shares to which it relates, any further exercise reduces the number of SARs granted on a one-for-one basis. At all times, the exercise of a SAR reduces the number of shares covered by an option on a one-for-one basis.

In the event of a change in control of the Corporation, all outstanding options and SARs become immediately exercisable.

At December 31, 2000, 10,366,675 shares (1999 – 10,804,713) were available for the granting of future options under the stock option plan out of the 20,000,000 common shares currently authorized.

Note 17. Stock Options (continued)

Details of the stock options outstanding were as follows:

	2000		1999	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of year	**5,738,211**	**$ 29.660**	5,027,528	$ 29.361
Granted	**859,800**	**31.172**	1,065,400	29.654
Exercised	**(475,501)**	**22.780**	(179,201)	22.476
Cancelled	**(422,823)**	**27.419**	(175,516)	28.438
Outstanding at end of year	**5,699,687**	**$ 30.634**	5,738,211	$ 29.660

Details as at December 31 of the stock options outstanding by year of expiry were as follows:

	2000			1999	
Year of Expiry	**Number of Options**	**Exercise Price Range**	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
2000	**–**	**$ –**	**$ –**	79,316	$ 20.341
2001	**94,600**	**19.000**	**19.000**	155,699	19.008
2002	**107,852**	**18.063**	**18.063**	143,775	18.063
2003	**476,723**	**19.563 – 22.063**	**21.490**	648,120	21.460
2004	**279,447**	**20.688 – 21.625**	**20.701**	422,701	20.692
2005	**427,295**	**19.500 – 23.750**	**23.244**	571,394	23.277
2006	**10,000**	**31.600**	**31.600**	40,000	31.275
2007	**1,918,570**	**34.200 – 40.150**	**35.385**	2,057,506	36.323
2008 – 2010	**2,385,200**	**29.600 – 40.850**	**32.153**	1,619,700	31.534
	5,699,687	**$ 18.063 – 40.850**	**$ 30.634**	5,738,211	$ 29.660

The options outstanding at December 31, 2000 expiring in years 2001 to 2007 are all currently exercisable. Of the options outstanding at December 31, 2000 expiring in the years 2008 to 2010, 251,650 options were then currently exercisable at a weighted average exercise price of $38.768.

During the year, $27.1 million (1999 – $0.9 million) was charged to compensation expense relating to the stock option plan for SARs, and $11 million (1999 – $4 million) was credited to common shares for options.

Note 18. Employee Future Benefits

The Corporation and the majority of its subsidiaries have defined benefit plans which provide for pensions and other post-retirement and post-employment benefits. Included in other benefits are termination and workers' compensation benefits which are not funded. Pension benefits are based principally on years of service and compensation rates near retirement. Annual contributions to these plans, which are based on various actuarial cost methods, are made on the basis of not less than the minimum amounts required by Federal or Provincial pension supervisory authorities.

Net benefit plan expense (recovery) for the year for such defined benefit plans includes the following components:

	2000		1999		1998	
(in millions)	**Pension Benefits**	**Other Benefits**	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Service cost – benefits earned during the year	**$ 52.6**	**$ 17.1**	$ 53.6	$ –	$ 27.7	$ –
Interest cost on projected benefit obligation	**388.8**	**58.3**	497.0	–	416.7	–
Expected return on pension fund assets	**(535.0)**	**1.3**	(544.8)	–	(440.8)	–
Settlement gain	**–**	**(22.0)**	–	–	–	–
Net amortization and deferrals	**58.1**	**(47.6)**	18.9	–	9.2	–
Net benefit plan expense (recovery)	**$ (35.5)**	**$ 7.1**	$ 24.7	$ –	$ 12.8	$ –

Note 18. Employee Future Benefits (continued)

Information about changes in Canadian Pacific's defined benefit plans and the amounts recognized in the Consolidated Balance Sheet is as follows:

	2000	
(in millions)	Pension Benefits	Other Benefits
Change in benefit obligation		
Benefit obligation, January 1	$ 5,467.7	$ 829.7
Service cost	49.1	17.1
Interest cost	388.8	58.3
Plan participants' contributions	52.0	–
Amendments	48.0	–
Plan adjustment	–	(31.9)
Settlement gain	–	(22.0)
Actuarial loss	322.2	22.3
Benefits paid	(369.6)	(145.0)
Foreign exchange rate changes	4.7	7.9
Benefit obligation, December 31	$ 5,962.9	$ 736.4
Change in plan assets		
Fair value of assets, January 1	$ 5,876.0	$ 15.0
Actual return on plan assets	529.0	(1.3)
Employers' contributions	49.5	10.5
Plan participants' contributions	51.8	–
Benefits paid	(374.9)	(10.5)
Foreign exchange rate changes	4.1	–
Fair value of plan assets, December 31	6,135.5	13.7
Funded (underfunded) status	172.6	(722.7)
Unamortized net actuarial loss [1]	260.8	10.3
Unamortized prior service cost [1]	51.7	–
Unamortized net transitional obligation (asset) [1]	(278.1)	40.4
Prepaid (accrued) benefit cost in Consolidated Balance Sheet [2]	$ 207.0	$ (672.0)

(1) Amortized over the expected average remaining service lives of employees covered by the plans, generally 13 years.
(2) The net accrued benefit cost on the Consolidated Balance Sheet is included in current and deferred liabilities offset by other assets.

Included in the above accrued benefit obligation and fair value of plan assets at December 31 are the following amounts in respect of plans that are not fully funded:

	2000	
(in millions)	Pension Benefits	Other Benefits
Accrued benefit obligation	$ 307.7	$ 746.6
Fair value of plan assets	199.9	11.7
Underfunded balance	$ 107.8	$ 734.9
Weighted average assumptions as of December 31		
Discount rate on projected benefit obligation	6.8%	6.8%
Expected return on plan assets	7.9%	–
Rate of compensation increase	3.0%	–

Note 18. Employee Future Benefits (continued)

For purposes of measuring Canadian Pacific's expected cost of benefits, an average 8.5% increase to health care costs was assumed for 2001. The rate was assumed to decrease by 0.6% per year to 4.5% and remain at that level thereafter.

Pension fund assets consist primarily of listed stocks and bonds.

Canadian Pacific also has defined contribution plans. The net expense for such plans, which generally equals the employer's required contribution, was $16.7 million, $11.5 million, and $9.7 million in 2000, 1999, and 1998, respectively.

Note 19. Commitments and Contingencies

At December 31, 2000, commitments for capital expenditures amounted to $710 million and minimum payments under operating leases and gas pipeline transportation agreements were estimated at $3,978 million in the aggregate, with annual payments in each of the five years following 2000 of: 2001 – $906.4 million; 2002 – $573.1 million; 2003 – $382.1 million; 2004 – $361.9 million; 2005 – $345.1 million.

At December 31, 2000, unused committed lines of credit for short term and long term financing, subject to periodic review, and at various maturities, amounted to $2,047 million on which interest rates vary with bank prime or money market rates.

During the normal course of business activity, the Corporation and its subsidiaries are occasionally involved in litigation proceedings. Actions for approximately $135 million have been initiated in Belgium against the Corporation and certain of its subsidiaries involved in the shipping operations relating to the termination of contracts for stevedoring and related services. The Corporation and its subsidiaries evaluated the claims and are vigorously defending the actions. The Corporation and its subsidiaries do not believe they will incur any liability in these actions and accordingly, no provision has been made in the accounts with respect to this matter.

Note 20. Subsequent Event

On February 13, 2001, Canadian Pacific announced a major reorganization which is intended to divide the Corporation into five separate public companies – Canadian Pacific Railway, CP Ships, PanCanadian Petroleum, Fording and Canadian Pacific Hotels & Resorts.

Under the proposed plan, Canadian Pacific intends to distribute its approximately 86% investment in PanCanadian Petroleum and its wholly owned subsidiaries, Canadian Pacific Railway, CP Ships and Fording to its common shareholders. All of the distributed companies will be publicly traded. At this stage, it is proposed that Canadian Pacific Hotels & Resorts would remain with Canadian Pacific as its principal ongoing business.

The distribution will be implemented by a Plan of Arrangement, contingent upon shareholder and court approval, a favourable Canadian tax ruling and other requisite consents.

Note 21. Reclassification

Certain prior years' figures have been reclassified to conform with the presentation adopted for 2000.

Note 22. Supplementary Data

The discussion of Canadian and United States accounting principles and the reconciliation of net income between United States and Canadian generally accepted accounting principles for the years included in Supplementary Data are an integral part of these financial statements.

The following data are provided to comply with required disclosure of the Securities and Exchange Commission (SEC) of the United States.

Canadian and United States Accounting Principles

The consolidated financial statements of Canadian Pacific have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada. Over the years, a number of differences have developed between Canadian and United States GAAP. For the information of the Corporation's United States shareholders, the major differences are described below along with their effect on Canadian Pacific's Statement of Consolidated Income and Consolidated Balance Sheet. There are no significant differences on the Consolidated Cash Flow Statement.

Oil and Gas

The full cost methods of accounting for oil and gas operations promulgated under Canadian and United States GAAP differ in the following respect. Ceiling test calculations are performed by comparing the net book value of petroleum and natural gas properties with the future net revenues expected to be generated from proven developed reserves, discounted at 10% for United States reporting purposes, and undiscounted for Canadian reporting. Any excess of net book value over future net revenues is recognized as additional depletion expense in both reporting jurisdictions.

Foreign Currency Translation

Canadian Pacific follows the Canadian practice of deferring and amortizing unrealized exchange gains and losses related to long term monetary foreign currency assets and liabilities, whereas under United States GAAP such gains and losses are included in income immediately.

Derivative Instruments and Hedging

For United States reporting, forward foreign exchange contracts associated with anticipated future transactions that do not constitute firm commitments, are recognized in the financial statements at fair value. Gains or losses resulting from changes in the market value are immediately reflected in income. Under Canadian GAAP, certain of Canadian Pacific's exchange contracts qualify as hedges for accounting purposes. Payments or receipts on these contracts are recognized in income concurrently with the hedged transaction and the fair values of the outstanding contracts are not reflected in the financial statements.

On June 30, 1998, the Financial Accounting Standards Board (FASB) issued Statement No. 133 "Accounting for Derivative Instruments and Hedging." The standard is effective for years starting after June 15, 2000. Canadian Pacific has not adopted the new standard as at December 31, 2000. Had the new standard been adopted, the impact of FASB Statement No. 133 on Canadian Pacific's consolidated financial statements would be to increase net income before taxes under United States GAAP by approximately $15 million.

Termination Benefits

The rules required to accrue termination benefits under United States GAAP are more restrictive than those in Canada. In particular, these rules require that the plans be implemented within one year which is not the case under Canadian GAAP.

Internal Use Software

United States standards require that certain costs, including preliminary project costs, of computer software developed or obtained for internal use be expensed as incurred, whereas Canadian standards require they be capitalized.

Canadian and United States Accounting Principles (continued)

Classification of Debt and Equity

United States GAAP requires that certain equity issues be classified as long term debt. In accordance with the classification as long term debt, distributions on the equities would be recorded as interest expense under United States GAAP as opposed to dividends under Canadian practice.

Comprehensive Income

United States GAAP requires the disclosure, as other comprehensive income, of changes in equity during the period from transactions and other events from non-owner sources. Canadian GAAP does not require similar disclosure. Other comprehensive income arose from foreign currency translation and minimum pension liability adjustments.

Income Taxes

Prior to 2000, Canadian Pacific followed the Canadian method of accounting for income taxes, described as the deferral method, which focused on differences arising between financial statement income and taxable income. The method followed under United States GAAP, described as the liability method, focuses on differences between the book and tax value of assets and liabilities. In addition, the previous Canadian method calculated future taxes using tax rates and regulations applicable in the year and were not changed in future years even though tax rates and regulations may have changed. In the United States, future taxes are calculated using enacted future tax rates and regulations and are adjusted in future years if those tax rates and regulations are changed. Although conceptually the same as the United States standard, the new Canadian method uses substantively enacted, rather than enacted only, tax rates to calculate future taxes.

Effective January 1, 2000, Canadian Pacific adopted retroactively without restating prior years, the provisions of CICA 3465 (Note 2a). Except for the potential difference in tax rates, this eliminates any significant differences in 2000 and following years between Canadian and United States GAAP with respect to accounting for income taxes.

Employee Future Benefits

Prior to 2000, the principal difference between Canadian and United States GAAP in accounting for pension costs was in the choice of discount rate used for computing the benefit obligation and the service and interest cost components of net periodic pension expense. Under Canadian GAAP, the discount rate used represented management's best estimate of the long term rate of return on pension fund assets, whereas under United States GAAP the discount rate reflects the rate at which pension benefits can be effectively settled at the date of the financial statements. In addition, costs related to post retirement health care and life insurance benefits were expensed when paid under Canadian practice, whereas under United States GAAP, these costs, based on the terms of the plan, are recognized on an accrual basis during the years the plan participants provide the services.

Effective January 1, 2000, Canadian Pacific adopted prospectively the provisions of CICA 3461 (Note 2b). This eliminated any significant differences between Canadian and United States GAAP with respect to accounting for employee future benefits.

Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

During 2000, FASB issued Statement No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," effective for transactions occurring after March 31, 2001. Canadian Pacific has not adopted the new standard as at December 31, 2000. The impact of FASB Statement No. 140 on Canadian Pacific's consolidated financial statements is not determinable at this time.

Canadian and United States Accounting Principles (continued)

Statement of Consolidated Income

A summary of the differences in operating income, income before goodwill charges, net income and earnings per common share resulting from Canadian and United States GAAP differences is as follows:

For the year ended December 31 *(in millions, except amounts per share)*	2000	1999	1998
Operating income			
Canadian GAAP	**$ 3,222.7**	$ 1,245.6	$ 1,475.6
United States GAAP	**2,966.7**	1,680.3	1,127.4
Income before goodwill charges			
Canadian GAAP	**1,811.8**	633.4	833.9
United States GAAP	**1,259.8**	946.8	516.2
Net income			
Canadian GAAP	**1,767.1**	593.9	801.3
United States GAAP	**1,215.1**	907.3	483.6
Earnings per common share			
Income before goodwill charges:			
Canadian GAAP	**5.66**	1.88	2.48
United States GAAP	**3.92**	2.86	1.54
Net income available to common shareholders:			
Canadian GAAP	**5.52**	1.76	2.39
United States GAAP	**3.78**	2.74	1.44

The following is a reconciliation of net income under Canadian GAAP to net income under United States GAAP:

For the year ended December 31 *(in millions)*	2000	1999	1998
Net income – Canadian GAAP	**$ 1,767.1**	$ 593.9	$ 801.3
Increased or (decreased) by:			
Oil and gas	**8.3**	8.9	19.2
Foreign exchange on long term debt	**(54.7)**	129.2	(92.2)
Unrealized gain (loss) on foreign exchange contracts	**(184.5)**	402.0	(324.2)
Pension costs	**(43.5)**	(15.3)	11.0
Post-retirement benefits	**15.1**	(13.2)	(12.9)
Termination benefits	**5.4**	77.0	–
Internal use software	**(20.5)**	–	–
Other	**(49.4)**	(74.4)	(18.4)
Adjusted net income before tax	**1,443.3**	1,108.1	383.8
Future income taxes on above items	**(86.9)**	(200.8)	99.8
Future income taxes due to rate differences	**(141.3)**	–	–
Net income – United States GAAP	**$ 1,215.1**	$ 907.3	$ 483.6
Other comprehensive income			
Foreign currency translation adjustments	**$ 80.4**	$ (128.3)	$ 109.9
Minimum pension liability	**(7.1)**	9.1	(9.1)
Other comprehensive income before tax	**73.3**	(119.2)	100.8
Future income taxes	**(23.3)**	35.2	(27.4)
Other comprehensive income	**50.0**	(84.0)	73.4
Comprehensive income	**$ 1,265.1**	$ 823.3	$ 557.0

Canadian and United States Accounting Principles (continued)

Consolidated Balance Sheet

The following shows the differences, higher/(lower), had the Consolidated Balance Sheet been prepared under United States GAAP:

December 31 *(in millions)*	2000	1999
Assets		
Net properties	**$ (10.6)**	$ 4.7
Other assets	**(352.1)**	(215.3)
	$ (362.7)	$ (210.6)
Liabilities and Shareholders' Equity		
Current liabilities	**$ 5.6**	$ (3.2)
Deferred liabilities	**314.6**	132.7
Long term debt	**125.6**	125.6
Future income taxes	**45.4**	(205.8)
Minority interest	**(150.0)**	(134.2)
Shareholders' equity		
Foreign currency translation adjustments	**(138.6)**	(58.3)
Retained income	**(644.6)**	(96.7)
Accumulated other comprehensive income	**79.3**	29.3
	(703.9)	(125.7)
	$ (362.7)	$ (210.6)

Quarterly Financial Information (unaudited)

Statement of Consolidated Income

For the three months ended *(in millions, except amounts per share)*	March 31	June 30	September 30	December 31 2000
Revenues	$ 3,487.9	$ 3,673.7	$ 4,121.3	$ 4,818.7
Cost and expenses:				
Cost of goods sold and services	2,282.8	2,340.6	2,607.6	3,124.5
Selling, general and administrative	301.1	319.6	303.8	324.9
Depreciation, depletion and amortization	289.0	301.2	308.6	375.2
	2,872.9	2,961.4	3,220.0	3,824.6
Operating income	615.0	712.3	901.3	994.1
Interest expense, net	70.4	79.5	82.0	89.3
Non-operating expense	22.6	34.8	27.9	37.9
Income before income taxes, minority interest and goodwill charges	522.0	598.0	791.4	866.9
Income tax expense	177.8	173.8	267.7	195.3
Minority interest share of income of subsidiaries	27.0	30.9	43.7	50.3
Income before goodwill charges	317.2	393.3	480.0	621.3
Goodwill charges, net of tax	11.5	10.8	11.0	11.4
Net income	305.7	382.5	469.0	609.9
Preferred dividends	3.1	3.1	3.1	3.1
Net income available to common shareholders	$ 302.6	$ 379.4	$ 465.9	$ 606.8
Earnings per common share:				
Income before goodwill charges	$ 0.97	$ 1.22	$ 1.51	$ 1.96
Net income available to common shareholders	$ 0.93	$ 1.19	$ 1.48	$ 1.92

Statement of Consolidated Income

For the three months ended *(in millions, except amounts per share)*	March 31	June 30	September 30	December 31 1999
Revenues	$ 2,526.2	$ 2,633.9	$ 2,935.8	$ 3,271.2
Cost and expenses:				
Cost of goods sold and services	1,716.4	1,720.5	1,917.5	2,124.6
Selling, general and administrative	262.9	762.9	239.2	295.2
Depreciation, depletion and amortization	263.5	262.3	257.5	299.0
	2,242.8	2,745.7	2,414.2	2,718.8
Operating income (loss)	283.4	(111.8)	521.6	552.4
Interest expense, net	66.8	68.9	68.0	70.9
Non-operating expense (income)	19.1	11.5	15.2	(0.3)
Income (loss) before income taxes, minority interest and goodwill charges	197.5	(192.2)	438.4	481.8
Income tax expense (recovery)	65.8	(108.3)	145.0	141.2
Minority interest share of income of subsidiaries	3.6	9.9	14.0	20.9
Income (loss) before goodwill charges	128.1	(93.8)	279.4	319.7
Goodwill charges, net of tax	10.1	9.7	9.8	9.9
Net income (loss)	118.0	(103.5)	269.6	309.8
Preferred dividends	–	4.2	3.1	3.1
Net income (loss) available to common shareholders	$ 118.0	$ (107.7)	$ 266.5	$ 306.7
Earnings per common share:				
Income (loss) before goodwill charges	$ 0.39	$ (0.30)	$ 0.83	$ 0.96
Net income (loss) available to common shareholders	$ 0.35	$ (0.32)	$ 0.80	$ 0.93

Included in selling, general and administrative expense at June 30 is a $500.6 million ($301.5 million after tax) provision, primarily for workforce reductions.

Ten-Year Summary

(dollars in millions, except amounts per share)	2000	1999	1998	1997
Revenues				
Continuing operations	**$ 16,101.6**	$ 11,367.1	$ 10,151.0	$ 9,560.0
Operating income (loss) from:				
Transportation	**$ 1,097.5**	$ 390.8	$ 913.9	$ 959.1
Energy	**1,860.7**	631.8	381.1	697.4
Hotels and Real Estate	**264.5**	223.0	180.6	136.6
	$ 3,222.7	$ 1,245.6	$ 1,475.6	$ 1,793.1
Income (loss) from continuing operations before goodwill charges	**$ 1,811.8**	$ 633.4	$ 833.9	$ 972.9
Net income (loss)*	**$ 1,767.1**	$ 593.9	$ 801.3	$ 1,255.8
United States GAAP				
Income (loss) from continuing operations before goodwill charges	**$ 1,259.8**	$ 946.8	$ 516.2	$ 1,164.2
Net income (loss)	**$ 1,215.1**	$ 907.3	$ 483.6	$ 1,447.1
Total assets	**$ 24,165.8**	$ 19,950.0	$ 19,206.3	$ 16,843.9
Total capitalization				
Total long term debt	**$ 4,396.1**	$ 3,480.0	$ 3,398.0	$ 2,796.0
Perpetual 4% Consolidated Debenture Stock	**61.3**	60.7	64.6	59.6
Minority shareholders' interest in subsidiary companies	**772.1**	585.2	357.7	350.6
Shareholders' equity	**9,555.5**	8,268.8	7,998.0	7,573.4
	$ 14,785.0	$ 12,394.7	$ 11,818.3	$ 10,779.6
Earnings per common share:				
Income (loss) from continuing operations before goodwill charges:				
Canadian GAAP	**$ 5.66**	$ 1.88	$ 2.48	$ 2.82
United States GAAP	**$ 3.92**	$ 2.86	$ 1.54	$ 3.37
Net income (loss) available to common shareholders:				
Canadian GAAP	**$ 5.52**	$ 1.76	$ 2.39	$ 3.64
United States GAAP	**$ 3.78**	$ 2.74	$ 1.44	$ 4.19
Dividends	**$ 0.56**	$ 0.56	$ 0.54	$ 0.48
Number of common shares *(millions)*				
Year-end	**314.0**	326.3	332.7	340.7
Average	**317.9**	331.5	335.8	345.4
Rate of return on average shareholders' equity	**19.8%**	7.3%	10.3%	17.6%
Debt : equity ratio	**30 : 70**	29 : 71	29 : 71	26 : 74
* Net income (loss) includes special items amounting to:	**$ –**	$ (301.5)	$ 20.0	$ 359.0

1996	1995	1994	1993	1992	1991
$ 8,471.3	$ 7,331.3	$ 6,367.1	$ 5,637.2	$ 4,927.4	$ 5,027.6
$ 713.9	$ (618.3)	$ 453.1	$ 390.5	$ (241.5)	$ 101.0
637.3	482.9	505.8	397.9	321.7	184.5
115.8	96.9	72.7	57.1	50.0	24.5
$ 1,467.0	$ (38.5)	$ 1,031.6	$ 845.5	$ 130.2	$ 310.0
$ 840.0	$ (256.4)	$ 485.6	$ 364.1	$ (108.2)	$ (256.4)
$ 869.1	$ (786.9)	$ 427.7	$ (155.5)	$ (443.2)	$ (878.7)
$ 884.0	$ (313.8)	$ 414.3	$ 398.0	$ (265.1)	$ (384.0)
$ 1,071.0	$ (716.3)	$ 289.0	$ (117.8)	$ (693.9)	$ (1,037.4)
$ 15,312.0	$ 16,072.4	$ 16,912.2	$ 17,047.1	$ 20,186.2	$ 20,467.5
$ 3,384.6	$ 4,909.8	$ 4,883.8	$ 6,063.3	$ 7,715.9	$ 7,215.3
57.2	186.6	194.5	178.1	172.4	176.4
321.6	311.1	291.1	265.6	815.2	867.0
6,727.8	6,129.9	7,060.9	6,242.7	6,490.8	6,883.8
$ 10,491.2	$ 11,537.4	$ 12,430.3	$ 12,749.7	$ 15,194.3	$ 15,142.5
$ 2.44	$ (0.75)	$ 1.44	$ 1.14	$ (0.34)	$ (0.81)
$ 2.57	$ (0.92)	$ 1.23	$ 1.25	$ (0.83)	$ (1.21)
$ 2.52	$ (2.30)	$ 1.27	$ (0.49)	$ (1.39)	$ (2.76)
$ 3.11	$ (2.10)	$ 0.86	$ (0.37)	$ (2.18)	$ (3.26)
$ 0.48	$ 0.36	$ 0.32	$ 0.32	$ 0.32	$ 0.63
346.9	342.3	341.8	319.4	319.1	318.7
344.4	342.1	337.5	319.2	318.8	318.5
13.5%	(11.9%)	6.4%	(2.4%)	(6.6%)	(11.8%)
33 : 67	44 : 56	41 : 59	49 : 51	52 : 48	49 : 51
$ 93.0	$ (1,091.0)	$ 58.0	$ (294.0)	$ (441.0)	$ (888.0)

Properties at Cost, Less Depreciation

At December 31, 2000 *(in millions)*	Canadian Pacific Railway	CP Ships	PanCanadian Petroleum	Fording	Canadian Pacific Hotels	Other	Total	Percent of Total
Canada								
Atlantic Provinces and Offshore	$ 0.3	$ –	$ 296.8	$ –	$ 2.2	$ –	$ 299.3	2%
Quebec	38.8	53.2	0.3	–	104.3	–	196.6	1%
Ontario	943.7	0.1	46.7	–	21.9	136.0	1,148.4	6%
Manitoba	285.2	–	0.3	–	–	–	285.5	2%
Saskatchewan	424.0	–	497.7	1.1	–	–	922.8	5%
Alberta	1,137.4	–	4,974.4	115.7	328.7	28.3	6,584.5	37%
British Columbia	1,536.8	–	124.0	443.4	302.6	28.5	2,435.3	14%
N.W.T., Nunavut, Yukon	–	–	19.0	–	–	–	19.0	0%
Transportation Equipment	1,446.3	–	–	–	–	–	1,446.3	8%
	5,812.5	53.3	5,959.2	560.2	759.7	192.8	13,337.7	75%
Outside Canada								
United States	1,561.5	121.6	726.2	57.1	391.1	–	2,857.5	16%
Other	–	161.3	445.1	183.9	426.8	5.0	1,222.1	7%
Ocean Ships	–	350.9	–	–	–	–	350.9	2%
	1,561.5	633.8	1,171.3	241.0	817.9	5.0	4,430.5	25%
	$ 7,374.0	$ 687.1	$ 7,130.5	$ 801.2	$ 1,577.6	$ 197.8	$17,768.2	100%

Common Share Market Prices

Toronto Stock Exchange

	2000		1999	
(Canadian dollars)	High	Low	High	Low
First Quarter	**35.40**	**26.80**	32.95	25.95
Second Quarter	**40.10**	**31.00**	37.20	28.90
Third Quarter	**42.50**	**37.25**	40.65	31.95
Fourth Quarter	**44.85**	**38.65**	35.35	30.50
Year	**44.85**	**26.80**	40.65	25.95

New York Stock Exchange

	2000		1999	
(U.S. dollars)	High	Low	High	Low
First Quarter	**24.37**	**18.25**	21.75	17.00
Second Quarter	**27.00**	**21.81**	25.50	19.32
Third Quarter	**28.62**	**25.12**	27.13	21.82
Fourth Quarter	**29.31**	**25.81**	24.00	21.00
Year	**29.31**	**18.25**	27.13	17.00

Shareholder Administration

Computershare Trust Company of Canada (successor to The Trust Company of Bank of Montreal), with transfer facilities in Montreal, Toronto, Calgary, Vancouver and in London, England, through its agent, Computershare Services plc, serves as transfer agent and registrar for the Common Shares. Computershare Trust Company of New York (successor to Harris Trust Company of New York) serves as transfer agent and registrar for the Common Shares in New York.

For information concerning dividends, or for change in share registration or address, please call 1-800-332-0095 or (514) 982-7555, or write to:

Computershare Trust Company of Canada
1800 McGill College Avenue
Montreal, Quebec H3A 3K9
Canada

Market for Securities

The Common Shares of Canadian Pacific Limited are listed on the Toronto and New York stock exchanges.

The 5.65% First Preferred Shares, Series A of Canadian Pacific Limited are listed on The Toronto Stock Exchange.

Trading Symbols

Common Shares – CP
5.65% First Preferred Shares, Series A – CP.PR.A

Dividend Reinvestment and Share Purchase Plan

Eligible holders of Canadian Pacific Limited Common Shares may acquire additional Common Shares through reinvesting cash dividends and/or investing optional cash payments, without paying brokerage commissions or administrative charges. An information circular providing details of the Plan may be obtained from Computershare Trust Company of Canada or from Shareholder Services at Canadian Pacific Limited.

Duplicate Annual Reports

While every effort is made to avoid duplication, some Canadian Pacific Limited registered shareholders may receive multiple copies of shareholder information mailings such as this Annual Report. Registered shareholders who wish to consolidate any duplicate accounts which are registered in the same name are requested to write to Computershare Trust Company of Canada.

Shareholder Services

Shareholders having inquiries or wishing to obtain copies of the Corporation's Annual Information Form should write to:

Shareholder Services
Office of the Corporate Secretary
Canadian Pacific Limited
1800 Bankers Hall East
855 – 2nd Street S.W.
Calgary, Alberta T2P 4Z5
Shareholder@cp.ca

Direct Deposit of Dividends

Shareholders are offered the option of having their Canadian dollar dividends directly deposited into their personal bank accounts in Canada on the dividend payment dates. Shareholders receiving their dividends in Canadian currency, as well as those shareholders whose dividends are not reinvested through the Dividend Reinvestment and Share Purchase Plan, may obtain a direct deposit enrollment form from Computershare Trust Company of Canada or from Shareholder Services at Canadian Pacific Limited.

Investor Relations

Institutional investors, brokers, security analysts and others desiring copies of Canadian Pacific's Investors Fact Book or other financial information should contact:

Sheila M. McIntosh
Vice-President
Corporate Communications and Investor Relations
Canadian Pacific Limited
1800 Bankers Hall East
855 – 2nd Street S.W.
Calgary, Alberta T2P 4Z5
Investor@cp.ca

Web Site

Visit our Web site at www.cp.ca

Corporate Governance

Canadian Pacific's Board of Directors and its management are committed to a high standard of corporate governance. We believe that effective corporate governance calls for the establishment of processes and structures that contribute to the sound direction and management of the Corporation's businesses, with a view to enhancing shareholder value.

Under the rules of The Toronto Stock Exchange, Canadian Pacific is required to disclose information relating to its system of corporate governance. Canadian Pacific's disclosure addressing each of the TSE's guidelines is set out in Appendix 1 to the Management Proxy Circular issued in connection with the 2001 Annual Meeting.

Board of Directors

[1,5] **Stephen E. Bachand**
Former President and
Chief Executive Officer
Canadian Tire Corporation, Limited
Ponte Vedra Beach, Florida

[1,3,5] **Dian Cohen**, C.M., LL.D.
President
Dian Cohen Productions Ltd.
Ayers Cliff, Quebec

[2,4,6] **Angus A. MacNaughton**
President
Genstar Investment Corporation
San Francisco, California

[1,2,4,6] **John D. McNeil**
Chairman, Executive Committee
and Director
Sun Life Assurance Company
of Canada and Sun Life Financial
Services of Canada Inc.
Toronto, Ontario

[2,4,6] **James E. Newall**, O.C.
Chairman
NOVA Chemicals Corporation
Calgary, Alberta

[4,6] **David P. O'Brien**
Chairman, President and
Chief Executive Officer
Canadian Pacific Limited
Calgary, Alberta

[1,5] **Michael E.J. Phelps**
Chairman and Chief Executive Officer
Westcoast Energy Inc.
Vancouver, British Columbia

[1,3] **Roger Phillips**, O.C.
President and Chief Executive Officer
IPSCO Inc.
Regina, Saskatchewan

[5] **Ronald D. Southern**, C.M., C.B.E., LL.D.
Co-Chairman and Chief Executive Officer
ATCO Ltd. and Canadian Utilities Limited
Calgary, Alberta

[2,4,5,6] **Allan R. Taylor**, O.C.
Retired Chairman and
Chief Executive Officer
The Royal Bank of Canada
Toronto, Ontario

[3] **Carole Taylor**
Former Chair
Canada Ports Corporation and
Vancouver Port Corporation
Vancouver, British Columbia

[3] **The Rt. Hon., The Viscount Weir**
Chairman
Balfour Beatty plc
London, England

[1] Member of Audit Committee
[2] Member of Corporate Governance and Nominating Committee
[3] Member of Environmental and Safety Committee
[4] Member of Executive Committee
[5] Member of Management Resources and Compensation Committee
[6] Member of Pension Trust Fund Committee

Officers

David P. O'Brien
Chairman, President and
Chief Executive Officer
Calgary, Alberta

Michael A. Grandin
Executive Vice-President
and Chief Financial Officer
Calgary, Alberta

William R. Fatt
Executive Vice-President
Toronto, Ontario

Ronald K. Gamey
Executive Vice-President
Calgary, Alberta

Edward J. Dato
Vice-President Corporate
Calgary, Alberta

Robert B. Hodgins
Vice-President and Treasurer
Calgary, Alberta

Alison T. Love
Vice-President Law, General Counsel
and Corporate Secretary
Calgary, Alberta

Sheila M. McIntosh
Vice-President
Corporate Communications
and Investor Relations
Calgary, Alberta

A copy of the 2000 annual report of each of the following businesses can be obtained by writing to its Secretary:

Canadian Pacific Railway Company
Suite 500
Gulf Canada Square
401 – 9th Avenue S.W.
Calgary, Alberta T2P 4Z4
www.cpr.ca

PanCanadian Petroleum Limited
PanCanadian Plaza
P.O. Box 2850
Calgary, Alberta T2P 2S5
www.pcp.ca

Fording Inc.
205 – 9th Avenue S.E.
Calgary, Alberta T2G 0R4
www.fording.ca

Canadian Pacific Hotels & Resorts Inc.
Canadian Pacific Tower
100 Wellington Street West
Suite 1600, TD Centre
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2001 Annual Meeting
The Annual Meeting of Shareholders will be held on Thursday, April 26, 2001, at The Fairmont Royal York Hotel, 100 Front Street West, Toronto, Ontario, at 9:30 a.m., Toronto time.

Si vous désirez vous procurer la version française du présent rapport, veuillez vous adresser à la vice-présidente, Contentieux, conseillère juridique générale et secrétaire générale,
Canadien Pacifique Limitée
1800 Bankers Hall East
855 Second Street S.W.
Calgary (Alberta) T2P 4Z5

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